STATE WATER RESOURCES CONTROL BOARD—Continued

be included in the Governor's Budget. Consequently, we recommend an increase in reimbursements of $19,500 and a reduction in Item 272 of an equal amount.

(d) *Operating expenses and equipment.* Included in the detail of operating expenses is $342,400 for the preparation and review of environmental impact reports (EIRs). This is a function which the board provides for certain local agencies and is fully reimbursed by those agencies. Based on past experience and the board's own revised estimate, this item appears to be overstated by approximately $275,000. Accordingly, we recommend that the proposed costs (and reimbursements) for EIR review be reduced to the board's latest estimate of $67,400. This will have no effect on the General Fund appropriation.

Health and Welfare Agency

STATE COUNCIL ON DEVELOPMENTAL DISABILITIES AND AREA BOARDS ON DEVELOPMENTAL DISABILITIES

Items 273–274 from federal funds — Budget p. HW 1-2

Requested 1980–81	$3,270,116
Estimated 1979–80	3,292,179
Actual 1978–79	N/A
Requested decrease (excluding amount for salary increases) $−22,063 (−0.7 percent)	
Total recommended reduction	None

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
273	State Council on Developmental Disabilities	Federal	$3,270,116
	Support		(817,529)
	Transfer to Community Program Development Fund		(981,034)
	Transfer to Area Boards on Developmental Disabilities		(1,471,553)
274	Area Boards on Developmental Disabilities		—

GENERAL PROGRAM STATEMENT

The State Council on Developmental Disabilities operates pursuant to the provisions of the Lanterman Developmental Disabilities Services Act (Chapter 1365, Statutes of 1976) and related federal law. The council is responsible for planning, coordinating, and monitoring services for developmentally disabled persons, allocating federal funds, and reviewing executive branch plans and budgets.

The council has 14 members including: (a) nine voting members appointed by the Governor, (b) three voting ex-officio members—the Secretary of Health and Welfare, the Superintendent of Public Instruction, and the Director of the Department of Developmental Services, and (c) two nonvoting members representing the County Supervisors Association and the Organization of Area Boards.

The 13 Area Boards on Developmental Disabilities operate pursuant to Chapter 1367, Statutes of 1976. Area boards are responsible for protecting and advocating the rights of developmentally disabled persons, conducting public information programs, encouraging the development of needed services, and assisting the state council in planning activities. The total number of members on area board ranges from fourteen to nineteen, depending on the number of counties in the area. The Governor appoints five members to each board and the governing bodies of each county in an area appoint the remaining members.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes $3,270,116 in federal funds for support of the council and area boards in 1980–81, which is a decrease of $22,063, or 0.7 percent, below estimated current year expenditures. In accordance with provisions of state and federal law, the council allocates the $3,270,116 as follows: (a) 30 percent, or $981,034, for transfer to the Program Development Fund for alternative community living arrangements, (b) 25 percent, or $817,529, for council support, and (c) 45 percent, or $1,471,553, for transfer to the area boards.

The budget identifies a total of 49 positions, including 13 positions for the council and 36 positions for the area boards. Included within the 49 positions are three new positions which were administratively established during the current year on the basis of workload increases. The budget proposes continuation of the positions in 1980–81.

EVALUATION OF STATE COUNCIL AND AREA BOARDS

The Lanterman Act requires the Legislative Analyst to conduct an evaluation every three years of the costs and effectiveness of the activities of the council and area boards. In order to conduct our assessment of the council, we met with selected members and staff, attended council meetings, and reviewed the state plan, council meeting minutes, newsletters and reports. In order to assess the area boards, we met with staff and administrative committee members of the Organization of Area Boards, visited five of the thirteen area boards, and reviewed a published record of accomplishments for 1978 as well as annual activity reports of individual boards for 1978 and 1979.

A significant problem we encountered in conducting our assessment is that the enabling legislation is vague with regard to both the functions and activities of the state council and area boards and the intended consequences of these activities. As a result, the "effectiveness" of these activities cannot be determined analytically. Below we (1) discuss the historical costs of the program, and (2) identify activities of both the council and area boards and point out significant problems or areas of noncompliance where possible.

STATE COUNCIL ON DEVELOPMENTAL DISABILITIES AND AREA BOARDS ON DEVELOPMENTAL DISABILITIES—Continued

A. STATE COUNCIL AND AREA BOARD COSTS

The state council and area boards were displayed as local assistance items in the Departments of Developmental Services and Social Services budgets in fiscal year 1978–79 and as separate budget items for the first time in fiscal year 1979–80. No reliable historical data on program costs exists for prior years. The council and Organization of Area Boards were unable to provide us with reliable expenditure data from their own internal records. Consequently, data on actual program costs is limited to one year. Table 1 displays these data.

Table 1
State Council and Area Board Costs (Federal Funds)

	Actual 1978–79	*Estimated 1979–80*[b]	*Proposed 1980–81*[b]
State Council	—[a]	$764,907	$817,529
Area Boards	—[a]	1,208,438	1,471,553
Totals	$1,655,583	$1,973,345	$2,289,082

[a] Source: 1980–81 Governor's Budget, Department of Developmental Services and Department of Social Services. No data are available for the council and area boards individually for 1978–79.
[b] Source: 1980–81 Governor's Budget.

B. STATE COUNCIL ACTIVITIES

Legislative Requirements

Chapter 1365 provides that the council shall be:

1. The "state planning council" responsible for developing the California Developmental Disabilities State Plan. The purposes of the plan are to integrate the planning and budgeting activities of those state agencies providing services to developmentally disabled persons and to comply with federal requirements. Existing law specifically requires administrative agencies to review the plan "prior to making an appropriation or allocating any state or federal funds for new or major expansions of programs or facilities to determine if the proposed expenditure is consistent with priorities approved in the plan." The council is also responsible for monitoring and evaluating the plan's implementation.

2. Responsible for reviewing and commenting on the proposed plans and budgets of other state agencies serving the developmentally disabled. This responsibility includes advising policy and fiscal committees of the Legislature.

3. Responsible for monitoring the execution of the Lanterman Act and reporting any delay in its implementation to the Governor and the Legislature.

1. Planning Function

In the past two years the council has made progress in meeting provisions of law which require the state plan to describe existing services and to designate administrative responsibility for plan implementation.

However, the plan still falls short of compliance in two areas:

a. *Plan and Budget Integration.* Existing law requires the plan to recommend priorities for program and facility development. However, the recommendations made in the 1980 plan do not: (a) provide sufficient detail of plan priorities to permit implementation, (b) distinguish between new and continuing programs, and (c) detail how identified funds are to be spent. Because the recommendations are so broad, they give agency administrators considerable discretion in making policy and budget decisions. As a result, the plan fails to integrate the planning and budgeting functions of state agencies providing services to the developmentally disabled as was envisioned in the enabling legislation.

There are two factors which undermine the usefulness of the plan but which are beyond the control of the state council. The first is the fact that the state plan is not a legally binding document for purposes of making policy and budget decisions. The second is that the planning format required by HEW does not permit a sufficient amount of program detail. We believe the council should seek a waiver or an amendment to federal planning requirements in order to incorporate the following information in its plan: (a) identification of target problems and service needs, (b) discussion of current efforts and their effectiveness, (c) description of proposed alternatives including an identification of organizations responsible for their implementation and required administrative and legislative action, and (d) level and source of funding including objects of expenditure.

b. *Evaluation of Program Effectiveness.* Existing law requires the plan to describe the procedures used in evaluating all identified programs. However, the 1980 plan does not discuss the effectiveness of services in helping developmentally disabled persons lead more independent, productive, and normal lives as is required by state and federal law. The plan states that the required evaluations will be provided when data from the department's evaluation system are available. This system uses an assessment tool referred to as the Client Development Evaluation Report (CDER) to test the impact of services on client development. The CDER system is not now operational. When the CDER is implemented, the council will need to collect at least one year's data before it can evaluate program effectiveness.

We do not believe the council will be able to implement the federal evaluation requirement, even within the extended time frame, for the following two reasons. The first is lack of program staff. Federal funds budgeted for support of the council are currently sufficient to maintain only seven professional positions who devote full time to the ongoing staff functions of the council. The second is lack of federal guidelines. PL 95-602 requires the U.S. Department of Health, Education and Welfare (HEW) to provide technical assistance to state councils in conducting their evaluations. However, the federal government has not yet fulfilled its obligation. As a result, we anticipate that the council will continue to set its own priorities for limited evaluation of specified program elements.

2. Review of Related Agency Budgets

The council states that it has testified at state legislative budget hearings from time to time. We were unable to obtain a schedule of the specific program or budget issues for which testimony was prepared.

Beginning in 1979–80, the council assigned one staff person to handle legislative activities. In addition, the council anticipates that it will devote more staff effort in the budget year to monitoring and testifying at budget hearings than has been done in the past.

3. Monitoring Function

The council has conducted a number of studies of programs for the developmentally disabled including adult needs and services, infant development services, the effect of the passage of Proposition 13 on services, and others. Currently, the council is conducting a review of the regional center system. The council also has assisted area boards by (a) participating in hearings regarding publicly-funded agencies alleged to be out of compliance with federal and state law, and (b) reviewing area board requests to pursue legal action against such agencies.

The council also has brought evidence of alleged noncompliance to the attention of the Governor and Legislature. However, it does not have legal authority to follow through on its monitoring activities.

C. AREA BOARD ACTIVITIES

Legislative Requirements

Chapter 1367 requires the area boards to:

1. Protect and advocate the rights of developmentally disabled persons. In order to fulfill this responsibility, area boards are authorized to review the policies and practices of publicly funded agencies serving persons with developmental disabilities. If the area boards find that such agencies are not meeting their obligations under local, state, or federal law, they are authorized to pursue legal, administrative, and other appropriate remedies to insure the protection of the legal, civil, and service rights of individuals.
2. Encourage the development of needed services for developmentally disabled persons through the review of state agency proposals for major expansion of existing programs and the establishment of new programs.
3. Assist the council in the preparation of the state plan by submitting information concerning each area's services, needs, and priorities to the council as requested. Area boards are also authorized to develop an area plan which would provide "information about service needs, priorities, program objectives, and the availability and quality of programs for persons with developmental disabilities in the area."
4. Conduct public information programs for professional groups and the general public to eliminate barriers which prevent developmentally disabled persons from participating in community programs.

1. Protection and Advocacy Function

In order to protect the interests of developmentally disabled inividuals, area boards monitor the activities of a number of publicly funded agencies serving developmentally disabled clients. Because the number of these organizations is large, area boards must establish priorities for their monitoring activities. As a result, some boards monitor local regional centers while others monitor local school districts, community colleges, residential care facilities, health facilities, workshops, transportation agencies, or state hospitals. No two area boards have identical ongoing monitoring activities, although all respond to complaints concerning local organizations.

When area boards find that service agencies are not meeting their legal obligations, enabling legislation requires them "to inform, in writing, the director and managing board of each noncomplying agency of its findings." If the agency involved fails to change its policies within 30 days, the area board may conduct a noncompliance public hearing to make findings of fact and to examine solutions to the problem. If the agency remains out of compliance 30 days following the hearing, the area board may request state council authorization to initiate a suit against the agency. Area boards may not pursue legal action without prior authorization from the council.

In practice, the protection and advocacy activities of the area board seldom are carried to the point of noncompliance hearings or litigation. In the past three years, area boards have requested authorization to litigate on four occasions. Area boards conduct most of their protection and advocacy activities informally.

Because there is no clear direction or consensus on what constitutes effective advocacy, boards have adopted a number of different advocacy styles. Informal agreements within the advocacy system assign responsibility for collective local advocacy to area boards and for individual advocacy to private advocacy organizations. In practice, however, all these organizations perform individual and collective advocacy to varying degrees. Our review of area board activity reports indicate that about one-half of the area boards provide advocacy services to individuals while the remainder refer individuals to legal aid services or private advocacy organizations.

2. Program Development Function

The primary activity undertaken by area boards to encourage the development of needed services is the review of applications by local community organizations for Program Development Fund grants. In 1978–79, area boards reviewed 72 applications, of which 29 were approved and funded by the Department of Developmental Services for a total of $1,618,301.

None of the area boards' activity reports indicate that they formally reviewed program development proposals by other state agencies providing services to developmentally disabled persons. However, some boards conduct program development activities at the local level. These activities have included assisting in the certification of a private school for developmentally disabled children, assisting in the development of a respite care program in a state hospital, promoting the development of an infant intervention program, and promoting the development of a new vocational training and employment facility.

3. Planning Function

All area boards engage in planning and coordination activities to some extent. These activities include conducting needs surveys, establishing community coordinating committees, coordinating planning activities with health systems agencies, the Department of Rehabilitation, and local transportation agencies, and conducting information-sharing activities with local services agencies.

The activity reports of the area boards indicate that 12 of the 13 boards have complied with the legislative requirement to assist the state council in the preparation of the state plan. However, none of the boards have completed a comprehensive areawide plan as authorized in the enabling legislation.

Beginning in 1979, area boards have also reviewed regional center applications to transfer the client case management function from the Department of Developmental Services' local Continuing Care Services offices to the regional center. This transfer is referred to as "opt-out." The department makes a decision to "opt-out" in a particular locality based on the recommendation of the local area board. In 1979, area boards reviewed five opt-out applications affecting eleven regional centers. The area boards recommended approval of three applications and denial of two. The department followed the recommendation in each case.

4. Public Information Function

Area board activity reports indicate that they have undertaken a variety of public information activities. The most common are publishing and disseminating clients' rights handbooks and service directories, and conducting public relations campaigns (including press releases and radio ads), workshops, seminars, professional conferences, and newsletters.

Health and Welfare Agency

HEALTH AND WELFARE AGENCY DATA CENTER

Item 275 from the Health and Welfare Agency Data Center Revolving Fund — Budget p. HW 3

Requested 1980–81	$15,374,546
Estimated 1979–80	9,730,513
Actual 1978–79	6,336,729
Requested increase (excluding amount for salary increases) $5,644,033 (+58.0 percent)	
Total recommended reduction	$1,026,848

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Expand Contract Scope. Recommend supplemental report language directing that (1) the data center contract with Boeing Computer Services Company be administered by the Health and Welfare Agency, (2) the scope of the contract be expanded and (3) the contractor's report be provided to the Joint Legislative Budget Committee and the fiscal committees.	638
2. *Unjustified Equipment. Reduce by $1,026,848.* Recommend reduction of expenditure authorization because planned equipment is not justified.	639

GENERAL PROGRAM STATEMENT

The Health and Welfare Agency (HWA) Data Center is one of four major state data processing centers authorized by the Legislature in 1972. The center provides computer support to the agency's constituent departments and offices. The cost of the center's operation is fully reimbursed by its users.

ANALYSIS AND RECOMMENDATIONS

The budget proposes $15,374,546 from the HWA Data Center Revolving Fund for support of the data center in 1980–81, which is an increase of $5,644,033, or 58 percent, over the estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. Approximately $1.2 million of the increase is to support an additional 47.8 personnel-years.

The size of the proposed increase in the data center's budget (58 percent) is due to a large extent on proposals to provide computer support for a number of major new automated information systems which are in various stages of development by departments which receive service from the center. These major systems include:

1. *California Automation of Services Team (CAST),* A new system under development by the Employment Development Department (EDD) to provide unemployment and employment services offices with automated capabilities, including the ability to maintain local client data bases. When implemented fully, over 200 EDD offices will have computer terminal access to the data center.

2. *State Public Assistance Network (SPAN),* a new centralized and automated state-operated welfare system under development by the Department of Social Services in response to Chapter 282, Statutes of 1979. As planned, this new system would replace current county welfare data-processing systems with a state central computer connected to remote terminals located in county offices.

3. *Medi-Cal Eligibility Data System (MEDS),* a state-county effort to improve the reliability of the statewide file of persons eligible for Medi-Cal. The core of MEDS will consist of a centralized data base of eligible persons, maintained on state computers with terminal access provided to counties.

HEALTH AND WELFARE AGENCY DATA CENTER—Continued

Significant Problems

Our analysis of the data center's budget and current operations has disclosed three significant problems:

(1) there are serious deficiencies in management planning and operations,

(2) the budget contains a significant increase for equipment which has not been justified, and

(3) the center's computer facility is inadequate.

Rapid Growth

The Health and Welfare Agency Data Center began operation in January 1978 and has experienced a substantial increase in staff, data-processing capacity, and customer workload. Table 1 displays this expansion in terms of personnel-years and annual budget.

Table 1
Expansion Rate
Health and Welfare Agency Data Center

	Personnel-Years	*Change from Previous Year*	*Expenditures*	*Change from Previous Year*
1977–78	114.6 [a]	—	$3,332,650 [a]	—
1978–79	123.6	7.8%	6,336,729	90.1%
1979–80 [b]	151.1	22.2	9,730,513	53.6
1980–81 [c]	169.7	12.3	15,374,546	58.0

[a] Annualized approximation. The center became operational January 1, 1978.
[b] Estimated.
[c] Proposed.

The increase in expenditures shown in Table 1 has resulted from an ever increasing customer demand for additional computing resources. Our review indicates that the data center has not been able to attain a satisfactory level of service, despite the substantial growth in its budget.

Customer Department Dissatisfaction

Whenever data-processing activities are consolidated into a single data center, some degree of customer dissatisfaction is inevitable because departments are required to relinquish control of in-house data processing equipment. Once a center stabilizes, however, it usually is able to provide adequate and cost-effective data processing service to the customer. This pattern has been followed at both the Stephen P. Teale and Law Enforcement Consolidated Data Centers. At the Health and Welfare Data Center, however, customer dissatisfaction remains high, even though the center has been operating for over two years.

Problems which have been cited by the center's users include (1) acquisition of software packages which are not available for use by customers for periods up to one year, and premature installation of equipment. Customer departments pay for these items because the data center's rates are set to recover all costs, (2) lack of industry-accepted management processes, such as change control procedures to reduce the impact of equipment and software changes, (3) lack of adequate planning for additional capacity, and (4) organizational deficiencies. Other problems which have surfaced relate to increasing costs to customers and the level of service provided.

The Employment Development Department is the center's largest customer and has expressed the most dissatisfaction over the quality of the service it is receiving. The degree of dissatisfaction is documented in numerous EDD and U.S. Department of Labor letters and memoranda to data center management and the Department of Finance, as well as in various internal documents. The concerns expressed by EDD are particularly critical because there is a history of failures in other states when automated employment security processes (which are primarily funded by the federal government) are merged into state data-processing service centers. This failure has resulted in the removal of these processes from data centers in some of the states. Such an occurrence in California would have a substantial impact on the Health and Welfare Agency Data Center because of the extent to which EDD funds support the data center's operation.

Our evaluation indicates that the department is responsible, in part, for some of the problems encountered to date. We find, however, that many of the problems are indicative of inadequacies within the data center.

Cost

The issue of cost is especially critical to EDD, which provides approximately 54 percent of the center's proposed budget. EDD's annual cost for data center services has increased from $3.3 million in 1978–79 to a projected $8.6 million in 1980–81, an increase of 160 percent in two years. Some of this increase reflects the cost of new systems under development, noted above. Our review, however, indicates that this increase cannot be attributed solely to the cost of new systems and workload increase. This conclusion is expressed also in a September 1979 letter from EDD to the Department of Finance regarding the proposed $8.6 million cost, in which EDD states: "We are not at all satisfied with this amount and feel the HWDC costs are extremely high." The letter goes on to state that data center growth "evidently has moved along without restraint and certainly with little or no consideration for the data center's captive users' capability to pay for these spiraling costs." Similar concerns have been expressed by some of the data center's other users.

External Evaluation

As a result of the problems cited above, the Policy Advisory Council (comprised of the data center customer departments) recommended that the center contract with an EDP management consulting firm to develop and implement a data center management reporting and control process. Such a process would enable the center and customer departments to control costs and insure operational effectiveness. Boeing Computer Services Company (BSC) of Seattle, Washington was awarded the contract and is developing the required process.

At the same time, the Department of Labor has increased federal oversight by initiating an audit of billings made to EDD for services provided by the center. The Health and Welfare Agency has also assigned agency

HEALTH AND WELFARE AGENCY DATA CENTER—Continued

staff to review the situation.

Contractor Assistance Should be Increased

We recommend supplemental report language directing that (1) the data center's contract with Boeing Computer Services Company be administered by the Health and Welfare Agency, (2) the contract scope be expanded to provide a complete assessment of data center deficiencies, equipment and technical resource requirements, and (3) the contractor's report be provided to the Joint Legislative Budget Committee and the fiscal committees.

The scope of the work to be performed by BCS is limited to the development and implementation of a management reporting and control process. There is no provision to examine other critical areas such as equipment requirements and management and telecommunications planning. The processing efficiency of the center's array of complex electronic equipment can be optimized only through a comprehensive resource management program. Telecommunications planning is critical because of the current and anticipated demand for distributed data-processing systems and terminals which will be located throughout the state.

A validation of data center equipment and technical staff needs is also required. Such a validation is necessary to accurately determine future budget requirements of the center.

Our analysis of the problem indicates that the Health and Welfare Agency should administer the BCS contract. This is because (1) the problems to be looked at involve all departments in the agency (including the data center), and (2) the data center is a critical factor in the ability of constituent departments to carry out existing and planned programs.

For the reasons given above, we recommend adoption of supplemental report language as follows:

"(1) The data center's contract with Boeing Computer Services Company should be administered by the Health and Welfare Agency, (2) the contract scope should be expanded in order to provide a complete assessment of data center deficiencies, equipment and technical staff resource requirements, and (3) the contractor's report should be provided to the Joint Legislative Budget Committee and the fiscal committees."

Operations Should be Stabilized

The rapid growth of the center has been a contributing factor to the problems which we have identified. The center has had no opportunity to stabilize operations during the two years in which it has operated, and has focused its attention on expansion of resources. This lack of stability has made it difficult for center management to make necessary improvements. Our findings indicate that the agency, the data center, and its contractor (BCS) should explore practical avenues to provide some temporary relief to the center's growth problems. Possible alternatives include off-loading some of the data center's current workload to another state or private sector computer, and developing and testing major new systems on equipment available from other sources.

Inadequate Facility

The data center is located in EDD's main Sacramento building. This facility is inadequate. It is so crowded with equipment that the computer technicians who maintain the equipment must move various components in order to perform essential maintenance and repairs. Also, major system upgrades cannot be accomplished in the normal manner. New equipment cannot be installed and tested prior to the removal of existing equipment. This is critical because when a computer is removed to make room for a replacement, the center must either stop production or go into a degraded mode of operation until the new equipment has been installed and tested. This is disruptive to users.

Approved capital improvements to alleviate the facility problems have not been completed on schedule. It is estimated that improvements which are needed *now* will not be completed until the early part of 1981. Further, the low bid for the planned construction is $827,307, which is $91,947 *more* than the amount available for capital outlay. The budget does not include funds for any increase in construction costs.

Budget Request Overstates Requirements

We recommend (1) a reduction of $1,026,848 to eliminate funding for additional equipment which has not been justified, and (2) that appropriate adjustments be made to the budgets of departments which receive service from the data center.

The major portion of the requested budget increase is for the acquisition of additional computing equipment and associated computer programs such as operating systems software and data communications software. Proposed expenditures for these items total $5,788,242. Our review of this request with center management resulted in an agreement that $2.7 million could be deleted from the request because the equipment was either not required, had been budgeted on the basis of unsubstantiated service requests, or was acquired in the current year. Table 2 displays the equipment detail as budgeted, and as revised, based on this redetermination by data center staff.

Table 2
Data Processing Equipment Detail
Health and Welfare Agency Data Center

Item	*Budgeted Amount*	*Revised Amount*	*Change*	*Reason*
Terminals	$1,029,566	$491,000	$−538,566	a
Telecommunications	918,303	437,939	−480,364	a
3033 Computer	864,960	864,960	—	—
Minicomputers	578,506	—	−578,506	b
Disk drives	527,702	527,702	—	—
SPAN project	339,269	125,000	−214,269	a
Memory	300,192	150,089	−150,103	b
Distributed Communications System	289,897	—	−289,897	c
Mass storage	221,100	—	−221,100	c
Remote processor	198,228	—	−198,228	c
Page printer	137,892	137,892	—	—
Software	210,150	210,150	—	—

HEALTH AND WELFARE AGENCY DATA CENTER—Continued

Controller	60,000	60,000	—	—
V/8 Upgrade	58,178	—	−58,178	c
Channels	54,299	54,299	—	—
Totals	$5,788,242	$3,059,031	$−2,729,211	

[a] Reduced to conform to known requirements.
[b] Reduced to reflect acquisition of item(s) in the current year.
[c] Item deleted based on lack of demonstrated need.

It would appear from Table 2 that the center's budget should be reduced $2.7 million. However, as discussed earlier, the center acquired some of the equipment budgeted for 1980–81 in the current year. These acquisitions are not reflected in the Governor's Budget, thereby understating the 1979–80 estimated expenditures. Allowing for the annualized cost of the additional items in determining 1980–81 requirements, an agreement was reached that the data center's authorized expenditure level should be reduced $901,848. We also recommend the deletion of $125,000 budgeted for the Statewide Public Assistance Network (SPAN), resulting in a total recommended reduction of $1,025,848. Deletion of SPAN equipment funding is also recommended in our analysis of the Department of Social Services (Item 309) because the pilot project for which the equipment is budgeted is not scheduled to begin operations until 1981–82.

Finally, we recommend that the Department of Finance reduce the budgets of data center customer departments to reflect our recommended reduction. This is necessary because the data center's budget reflects a spending authority, and its expenses are reimbursed from funds budgeted by individual departments.

Health and Welfare Agency

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

Items 276–278 from the General Fund — Budget p. HW 5

Requested 1980–81	$7,784,367
Estimated 1979–80	5,030,779
Actual 1978–79	3,276,354
Requested increase (excluding amount for salary increases) $2,753,588 (+54.7 percent)	
Total recommended reduction	$290,679

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
276	State Operations	General	$1,231,663
	Chapter 1162, Statutes of 1977 Family Physician Training	General	20,508
	Chapter 1300, Statutes of 1978 Family Physician Training	General	37,409

	Chapter 885, Statutes of 1979 Family Physician Physician Training	General	106,000
	Balance available in subsequent years		−38,145
277	Local Assistance	General	3,212,622
	Chapter 885, Statutes of 1979	General	3,002,450
278	Legislative Mandates	General	211,860
	Total		$7,784,367

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Health Professions Career Opportunity Program. Reduce Item 276 by $290,679.* Recommend deletion of seven positions proposed for the Health Professions Career Opportunity program. 643
2. Fiscal Management. Recommend that the Office of Statewide Health Planning and Development report to the Legislature on action it is taking to improve fiscal management. 646

GENERAL PROGRAM STATEMENT

The Office of Statewide Health Planning and Development is responsible for developing the foundation for a state health policy which assures the accessibility of needed, appropriate health services to the people of California at affordable costs. The office administers five programs which have the following functions:

1. The *Health Planning Division* has overall responsibility for carrying out health planning activities and developing statewide health policy. The division accomplishes this by working with the state's 14 Health Systems Agencies to develop a State Health Plan, which establishes priorities for delivery and financing of health services.

2. The *Certificate of Need Division* administers the state's certificate of need law, which requires approval of capital outlay projects proposed by licensed health facilities.

3. The *Health Professions Development Division* administers special health manpower projects and programs. Programs administered by this division include the Song-Brown Family Physician Training program, the Health Professions Career Opportunity program, and the Health Manpower Pilot Projects.

4. The *Facilities Development Division* reviews health facility construction plans for conformance with federal and state building requirements and reviews health facility applications for construction grants and loans.

5. The *Special Studies program* is responsible for developing a master plan for services to children and youth.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of $7,784,367 from the General Fund to support the Office of Statewide Health Planning and Development in 1980–81. This is an increase of $2,753,588, or 54.7 percent, over estimated current year expenditures. The primary components of this increase are: (1) $290,679 to establish the Health Professions Career Opportunity program, and (2) $3,212,622 to fund additional family practice residencies beginning in the 1981–82 fiscal year under the Song-Brown Family Physician Training program.

The budget also proposes the following expenditures:

1. $1,967,973 from the Hospital Building Account, Architecture Public Building Fund, for review of the seismic safety of proposed health facilities.
2. $339,050 from the Health Facility Construction Loan Insurance Fund for review of loan applications.
3. $3,037,488 in federal funds.

Total expenditures from all funds for fiscal year 1980–81 are proposed at $15,288,780, an increase of $3,132,974, or 25.8 percent, over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Compliance with P.L. 93-641

Potential Budget Deficit. The federal Department of Health, Education and Welfare (HEW) has notified the Secretary of the Health and Welfare Agency and the office that California remains out of compliance with P.L. 93-641, the National Health Planning and Development Act. Two aspects of California's health planning program are out of compliance: (1) the state health planning organization is incomplete (for example, the state has yet to create a Statewide Health Coordinating Council), and (2) the state certificate of need law is insufficient (for example, California does not require certificate of need review for remodeling or replacement projects).

HEW has notified the secretary that if California is not complying with the law by October 1, 1980, the state will lose an estimated $150 million to $200 million in federal funds. Grants affected would be those awarded for the development, expansion, or support of health resources under the Public Health Services Act, the Comprehensive Alcohol Abuse and Alcohol Prevention, Treatment and Rehabilitation Act, the Community Mental Health Centers Act, and other federal legislation. The state also faces the loss of $3.0 million which supports its health planning and certificate of need programs.

In the Analysis of the 1979 Budget Bill, we reported that the Health and Welfare Agency was proposing that Congress amend P.L. 93-641 to provide greater state control over the health planning process. In 1979, Congress passed P.L. 96-79, which amends P.L. 93-641. P.L. 96-79:

1. reduces the number of council members each Health Systems Agency may have from two to one;
2. allows the Governor to appoint the council chairperson; and
3. allows the Governor to disapprove the state health plan if the office determines that the plan does not effectively meet the state's health needs. Each of these amendments was proposed by the Health and Welfare Agency.

The Legislature still must decide whether to pass legislation that would place California in compliance with federal law. If it decides not to, the state must begin to prepare for the potential fiscal and program consequences of major cutbacks in federal funding.

Health Professions Career Opportunity Program (HPCOP)

We recommend deletion of seven positions requested for the Health Professions Career Opportunity program, for a savings in Item 276 of $290,679.

The office is requesting $290,679 from the General Fund for five positions (three professional, two clerical) and two temporary help positions for the Health Professions Career Opportunity program.

The program was established in the 1977–78 fiscal year with federal funds provided through Title II of the Public Works Employment Act of 1976. The Title II funds expired at the end of the 1978–79 fiscal year. In the 1979 Budget Act support for the program was provided from the General Fund while the program was being evaluated.

Program Activities. The program consists of a variety of activities intended to increase the number of minority and disadvantaged students trained in the health professions (primarily medicine, dentistry, and public health). The program's long-range goal is to increase the number of minority health professionals practicing primary care medicine in the state's designated health manpower shortage areas. Some of the program's activities are: (1) counseling rejected minority medical school applicants, (2) publishing a regular newsletter, (3) publishing brochures and fact sheets on health careers, (4) holding conferences for students intending to apply, or who have been accepted to medical school, (5) assisting minority applicants to graduate from public health programs, and (6) conducting research studies.

Department of Finance Evaluation. Pursuant to supplemental report language in the Budget Act of 1979, the Department of Finance conducted an evaluation of the program during the current year. This evaluation sought to (a) evaluate the cost-effectiveness and cost-efficiency of HPCOP, (b) identify the extent of overlap, if any, between the program and other programs in California, and (c) present alternatives to General Fund support for the program. The major findings of the evaluation are:

1. *The program is not able to control those factors affecting the number of minority health professionals being trained and the number of minority health professionals practicing primary care in health manpower shortage areas.* The department's report states that "Factors accounting for college enrollments of minorities are complex and interrelated. Parental levels of education are a significant social factor constraining the participation of minorities in college. Other relevant factors are unemployment rates and health conditions. It is unlikely that these factors are within the control of any one program . . . Likewise, it is unlikely HPCOP can control factors influencing whether minority health professionals will later practice in shortage areas . . ."

2. *Five of the program's 11 activities appear to have a questionable relationship to program objectives.* These activities and the department's comments on them are as follows:

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

(a) *Publishing a Health Professional Shortage Area Clinic Matching Directory.* "We question the need for this activity. HPCOP conducts this activity partly out of concern that some health clinics are paying other organizations for the same kind of information that is contained in HPCOP's directory. The directory . . . is provided at no charge. The need for HPCOP to duplicate this service has not been established."

(b) *Conducting conferences for students already accepted to medical and dental schools.* "We question the benefit of HPCOP conducting this activity. There is a low student attrition rate at medical and dental schools, and minorities are as likely to graduate as nonminorities. In addition, one-half of the state's medical schools have pre-entry programs, as well as 90 percent of the dental schools."

(c) *Conducting research on minority health professions development.* "There is a very indirect relationship between HPCOP's research efforts and the achievement of its program objectives."

(d) *Conducting conferences on health care topics from a minority person's perspective.* "We continue to question the practicality of HPCOP's trying to link health professionals with shortage areas."

(e) *Providing technical assistance to help minority careers programs obtain federal funding.* "We question whether this activity helps HPCOP achieve its own program objectives."

3. *There is a serious lack of information on program administration.* The department found that "records on how staff spend their time are incomplete, information on budget appropriations and expenditures is not always available, and data on the status of activities is infrequently documented."

4. *HPCOP "has not fulfilled commitments to do evaluation so that there is no information to establish HPCOP's effectiveness"* (emphasis supplied). The department concluded that data collected by HPCOP "does not accurately characterize the people served by the program" and that the data "does not address program effectiveness."

Given that the Department of Finance's evaluation was not able to demonstrate program effectiveness, we have no basis for recommending continuation of this program. Accordingly, we recommend deletion of seven positions requested for the program, for a General Fund savings of $290,679.

Song-Brown Family Physician Training

We recommend approval.

Chapter 1176, Statutes of 1973, established the Song-Brown Family Physician Training Program to (1) increase the number of health professionals practicing the specialty of family practice and (2) maximize the delivery of primary care family practice services in geographical areas of unmet need. The legislation established the Health Manpower Policy Commission and authorized the commission to (a) determine areas of unmet need and (b) administer a medical contract program with schools and facilities that train family practice health professionals, including residents and physician's assistants. Chapter 1003, Statutes of 1975, expanded the contract program to cover nurse practitioners. Chapter 170, Statutes of 1977, Chapter 1300, Statutes of 1978, and Chapter 885, Statutes of 1979, further expanded the program to permit the commission to fund special projects which are primarily in undergraduate schools and programs that train primary health care teams.

The commission provides support to programs in the form of block grants and capitation funds. Block grants are awarded for special projects and programs which train primary care teams. The residency, physician assistant and nurse practitioner programs are funded on a capitation basis. Currently, the annual capitation grant for one medical residency slot is $15,000 per year, or $45,000 for three years. The rate for a physician assistant/nurse clinician slot is $8,750 per year. Although training institutions apply to the commission for a specified number of slots, there is no procedure for identifying specific individuals as the designated recipients of the funds. Instead, the overall training program must adhere to the standards established by the commission in order to receive funds.

In the past, the program has received funding through appropriations contained in separate legislation rather than in the annual Budget Act. The legislation authorized the commission to encumber the funds during specified four-year periods. This assures institutions that once a training slot has been created, funding will be provided during the entire training period. Table 1 displays the past and proposed General Fund appropriations for the program.

Supplemental report language in the Budget Act of 1979 required that the program's appropriation be placed in the Governor's Budget for 1980–81 if the administration determined that the program should be continued.

The proposed budget appropriates $3,212,622 from the General Fund for medical residencies and related programs beginning in the 1981–82 fiscal year. The budget also includes $3,002,450 from the General Fund appropriated by Chapter 885, Statutes of 1979, for residencies commencing in 1980–81. During the current year 35 first year medical residencies were provided. The proposed budget will fund the equivalent of 37 residencies in 1980–81 and 39 residencies in 1981–82.

Problems with Fiscal Management

We recommend that the Office of Statewide Health Planning and Development report to the Legislature on action it is taking to improve its fiscal management system.

Our review of the office's budget proposal identified serious deficiencies in the office's fiscal management system. The most significant problem is that the office has no method for reporting expenditures on a monthly or even a quarterly basis. The office has year-end expenditure totals but no monthly or quarterly records for fiscal year 1978–79. No monthly or quarterly data exist for the current year.

Without monthly expenditure ledgers, the office cannot properly monitor and control expenditures by the office's various units. Current year expenditure data will not be available until after the end of the fical year.

Table 1
Song-Brown Family Physician Training Program
Allocations 1973–79 and Proposed 1980–84

	Capitation Funds		*Block Grants*					
	Family Physician Residencies	*Physician Assistant/ Nurse Practitioner*	*Team Training*	*Special Projects*	*Contract Total*	*Administration*	*Total Funding*	*Years Authorized/ Proposed*
Chapter 1176, Statutes of 1973	$1,972,478	$744,375	—	$283,147	$3,000,000	$150,000	$3,150,000	1974–75—1976–77
Chapter 693, Statutes of 1976	1,383,250	268,125	—	23,625	1,675,000	100,000	1,775,000	1977–78—1980–81
Chapter 1162, Statutes of 1977	1,575,000	397,500	—	360,000	2,332,500	100,000	2,432,500	1978–79—1981–82
Chapter 1300, Statutes of 1978	1,575,000	427,500	$470,000	360,000	2,832,500	100,000	2,932,500	1979–80—1982–83
Chapter 885, Statutes of 1979	1,669,500	421,350	530,000	381,600	3,002,450	106,000	3,108,450	1980–81—1983–84
Proposed 1980 Budget Bill	1,786,365	450,845	567,100	408,312	3,212,622	—	3,212,622	1981–82—1983–84
Totals	$9,961,593	$2,709,695	$1,567,100	$1,816,684	$16,055,072	$556,000	$16,611,072	

The absence of current year expenditures data also impairs the office's budgetary processes. The current year estimates in the 1980–81 budget proposal are based on adjustments to the office's 1979–80 appropriations and do not reflect actual expenditures in the current year. An adequate expenditure reporting system is also necessary for effective policy planning and program evaluation. Currently, the office's expenditures cannot be allocated to program, organizational unit, or funding source. Without this information, the cost-effectiveness and cost-efficiency of the office's various activities cannot be determined.

Section 6012 of the State Administrative Manual requires each agency to use "either a cost accounting system or a cost allocation procedure approved by the Department of Finance to identify and convert traditional line-item cost to the related program budget structure levels." Currently the office has no such cost allocation procedure.

The office's fiscal management problems are not entirely of its own making. When the office was created following the reorganization of the old Department of Health in July 1978, it had virtually no fiscal management system and was not given sufficient administrative staff to develop one. The office has informed us that certain workload problems, such as a two to three month backlog in the payment of bills, prevent it from allocating more staff time to improving its fiscal management system.

We recommend that the office present testimony at the budget hearings which addresses the following topics:

1. The current status of their fiscal management system;
2. The actions currently being taken to eliminate deficiencies in the office's accounting, encumbrancing, and budgeting systems; and
3. Further actions required to eliminate those deficiencies, including an implementation schedule.

Legislative Mandates

We recommend approval.

The budget proposes $211,860 for legislative mandates in 1980–81, which is an increase of $2,742, or 1.3 percent above estimated current year expenditures. This item reimburses local hospital districts for assessment and certificate of need fees paid to the office, pursuant to Chapter 854, Statutes of 1976.

Health and Welfare Agency
DEPARTMENT OF AGING

Item 279 from the General Fund — Budget p. HW 12

Requested 1980–81	$3,133,925
Estimated 1979–80	2,728,317
Actual 1978–79	1,178,926
Requested increase (excluding amount for salary increases) $405,608 (+14.9 percent)	
Total recommended reduction	None

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
279	Support, Department of Aging	General	$1,189,874
	Chapter 1189, Statutes of 1979	General	1,500,000
	Chapter 1121, Statutes of 1979	General	125,000
	Chapter 1122, Statutes of 1979	General	125,000
	Chapter 1199, Statutes of 1977 (reappropriated by Chapter 1002, Statutes of 1978)	General	169,051
	Chapter 1199, Statutes of 1977	Transportation Planning and Development Account, State Transportation Fund	25,000
	Total		$3,133,925

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Underutilization of Federal Support. Recommend department report to fiscal subcommittees regarding its failure to maximize available federal support for state administration. 654
2. Fiscal Management System. Recommend language requiring that Department of Finance evaluate department's accounting and reporting system and submit its findings and recommendations to Legislature by November 15, 1980. Further recommend (a) evaluation occur prior to development of computerized data processing system, and (b) Department of Finance assist the department in development of appropriate data processing applications. 655
3. Administration on Aging's Fiscal Sanctions. Recommend language directing that department report to Legislature by November 15, 1980, on (a) dates of department's quarterly reports for federal fiscal year 1980, (b) status of contracts with local service providers, and (c) progress in implementing new payment system. 656
4. Unexpended Balance of Federal Funds. Recommend department provide report to fiscal subcommittees, prior to budget hearings, which (a) reconciles estimates of unex- 657

pended federal funds, (b) describes steps taken to prevent future discrepancies, and (c) advises Legislature of plan to spend remainder of current unexpended balance.

5. Accelerated Spending. Recommend language requiring that department release funds from unexpended balance through request for proposals (RFP) process. 661
6. Fiscal Sanctions for Nutrition Projects. Recommend language requiring that department report to Legislature by September 1, 1980, on (a) development of new sanctions policy for nutrition projects, (b) progress in preparing area agencies on aging (AAAs) to implement policy beginning October 1, 1980, and (c) implementation of state sanctions procedures to ensure compliance by AAAs. 665
7. Nutrition Reserve Fund Budget Display. Recommend language directing Department of Finance to display only the balance of the Nutrition Reserve Fund and not projected expenditures, beginning in 1981–82 Governor's Budget. 667
8. Nutrition Reserve Fund Follow-up Legislation. Recommend legislation be enacted to (a) provide for local review of requests for assistance, (b) require local match, and (c) limit number of times individual projects receive emergency assistance. 668

GENERAL PROGRAM STATEMENT

The California Department of Aging (CDA) is the single state agency charged to receive and administer funds which are allocated to California under the Older Americans Act (OAA). Internally, the department contains two major subdivisions: (1) program administration, which includes planning and policy development, three grants development branches, training, and advocacy assistance, and (2) administration, which includes audits, management and data systems, and fiscal, legal, personnel, communications, and office services.

The California Commission on Aging is composed of 25 members appointed by the Governor, the Speaker of the Assembly, and the Senate Rules Committee. It is mandated to act in an advisory capacity to the department and to serve as the principal state advocate on behalf of older persons.

The local network for delivery of services funded by the Older Americans Act consists of planning and coordinating bodies called area agencies on aging (AAAs, often referred to as "triple As"). In California there currently are 15 AAAs, but 18 more will be designated by October 1, 1980, in response to federal requirements. At that time, there will be one AAA in each of the state's 33 planning and service areas. CDA has designated these 33 subdivisions of the state pursuant to 1973 amendments to the OAA.

ANALYSIS AND RECOMMENDATIONS

The budget proposes the expenditure of $3,133,925 from state funds for support of the Department of Aging in 1980–81, which is an increase of $405,608, or 14.9 percent, above estimated current-year expenditures. This

DEPARTMENT OF AGING—Continued

amount will increase by the amount of any salary or staff benefit increase approved for the budget year. The increased funds are requested to augment the budgets of local nutrition projects ($600,000). This increase will be partially offset by the following budget changes: (1) expenditure in the current year of the remaining funds appropriated by Chapter 1199, Statutes of 1977, to complete the Senior Nutrition and Volunteer Project ($−280,616), (2) increased personnel costs ($45,124) and increased prices ($17,376), (3) increased program costs ($24,713), and (4) transfer of funds to the Health and Welfare Agency to support the systems review unit ($−989).

Total program expenditures, all funds, are projected at $69,525,648, an increase of $3,261,129, or 4.9 percent, over estimated current-year expenditures. The budget changes are detailed in Table 1.

Table 1
Department of Aging
Proposed 1980–81 Budget Changes
All Funds

	General	*State Transportation*	*Federal*	*Nutrition Reserve*	*Reimbursements*	*Total*
1979–80 Current Year Revised	$1,778,317	$50,000	$63,529,563	$900,000	$6,639	$66,264,519
1. Baseline Adjustments						
A. Increase in Existing Personnel Costs	45,124					45,124
1. Salary adjustments	(10,179)					
2. Salary savings adjustment	(32,791)					
3. OASDI	(2,154)					
B. Price Increase	17,376					17,376
C. Reimbursement Adjustments	−989				−4,139	−5,128
D. Funding Source Adjustments						3,104,083
1. Nonrecurring items (Chap. 1199/77, 1002/78)	−255,616	−25,000				(−280,616)
2. Federal allocation augmentation			2,784,699			(2,784,699)
3. Nutrition Reserve Fund				600,000		(600,000)
Total Baseline Adjustments	$−194,105	$−25,000	$2,784,699	$600,000	$−4,139	$3,161,455
2. Program Change Proposals						
A. Administrative support	(5,029)		(15,910)			(20,939)
B. Manuals development	(4,254)		(12,762)			(17,016)
C. Plan monitoring and coordination	(15,430)		(46,289)			(61,719)
Total Program Change Proposals	$24,713		$74,961			$99,674
Total Budget Changes	$−169,392	$−25,000	$2,859,660	$600,000	$−4,139	$3,261,129
1980–81 Proposed Expenditure Totals	$1,608,925	$25,000	$66,389,223	$1,500,000	$2,500	$69,525,648

The Department of Aging has 115.5 positions authorized by the legislature. During the current year, 10 audit positions were transferred administratively to CDA from the Department of Finance, and another three positions were established from redirected funds "to permit more cost effective training." For the budget year, the department is requesting permanent authorization for the administratively established positions and 4.3 additional staff. The new positions will permit monitoring of progress toward goals set forth in the state plan (1), collection and analysis of statewide data on services to the elderly (1), production and maintenance of departmental procedures manuals (1), and upgrading of part-time office services support positions to full-time (1.3). Thus, a total of 132.8 authorized positions are proposed for the budget year.

Legislative Follow-up

The Supplemental Report of the 1979 Budget Act required the Department of Aging to develop a comprehensive plan for the Senior Employment Services Program (Title V, Older Americans Act).

On September 7, 1979, the Joint Legislative Budget Committee received CDA's "Comprehensive Plan for the Senior Community Service Employment Program (SCSEP)" dated April 1979. The department advises it will annually submit a revised plan to the U.S. Department of Labor as an attachment to its grant application for the senior employment program.

Commission on Aging

The department's budget proposes expenditures totaling $232,421 (consisting of $81,799 General Fund, $148,122 federal funds, and $2,500 reimbursements) to support commission activities during the budget year. This is an increase of $11,812, or 5.4 percent, over estimated 1979–80 expenditures. The commission, supported by a staff of three professional and two clerical positions, meets once a month, six times each year outside Sacramento. Commission members and staff are reimbursed for their travel and per diem expenses while on state business.

IMPACT OF RECENT LEGISLATION

Senior Companion Program

Chapter 1121, Statutes of 1979 (AB 1246), authorized the Department of Aging to recruit low-income seniors (age 60 and over) to provide care and support to adults with special needs (for example, frail elders, or physically handicapped or mentally impaired adults). The act appropriated $250,000 from the General Fund for this program. CDA plans to spend $125,000 from this appropriation during the current year and the balance during the budget year.

Pursuant to Chapter 1121, CDA is negotiating an interagency agreement with the federal ACTION agency, which administers volunteer programs throughout the country. To date, the two agencies have agreed that CDA will provide the program funds to ACTION and, in return, ACTION will administer the program at the site level without charging administrative costs to the program funds. Chapter 1121 allows 7 percent of the $250,000, or $17,500, for CDA's administrative costs. This amount will be used to pay an independent contractor to conduct the evaluation study required by Chapter 1121.

The program concept, as developed by CDA and ACTION, calls for 85 companions to be recruited, 17 in each of five sites. Three of the sites (Santa Cruz, Los Angeles, and Oakland) are participants in the Multipurpose Senior Services Project (see our discussion of this project in our analysis of Item 35). The other two sites (Sacramento and San Bernardino) are less formally structured senior centers. The evaluation study will compare the effectiveness of senior companions in the two settings.

Foster Grandparent Program

Chapter 1122, Statutes of 1979 (AB 1247), authorized the Department of Aging to expand the existing Foster Grandparent program in California. The act appropriated $250,000 from the General Fund for this program, which involves recruiting low-income seniors to provide services to children with special needs (for example, premature or battered babies, or physically handicapped, mentally disabled, or emotionally disturbed children). CDA plans to spend $125,000 from this appropriation in the current year and the balance during the budget year.

Pursuant to Chapter 1122, CDA is negotiating an interagency agreement with the federal ACTION agency, which administers volunteer programs throughout the country. To date, the two agencies have agreed that CDA will provide the program funds to ACTION and, in return, ACTION will administer the program at the site level without charging administrative costs to the program funds. Chapter 1122 allows 7 percent of the $250,000, or $17,500, for CDA's administrative costs. This amount will be used to pay an independent contractor to conduct an evaluation study.

The program originally developed by CDA and ACTION called for 120 new foster grandparents to be recruited, 12 in each of 10 existing foster grandparent programs (Redding, Ukiah, Sacramento, San Francisco, San Jose, Santa Cruz, Fresno, San Diego, and two in Los Angeles). One program component requires foster grandparents to work with youthful first offenders to try to prevent institutionalization or to expedite successful release. Several of the existing programs have indicated their lack of interest in this concept. As a result, a final decision has not been made on the program's focus.

Nutrition Reserve Fund

Chapter 1189, Statutes of 1979 (AB 987), appropriated $5 million from the General Fund for transfer to the Nutrition Reserve Fund (NRF) established by the act. Chapter 1189 authorizes the director of the Department of Aging to allocate up to $300,000 to any individual nutrition project in any one fiscal year in order to maintain services which lack sufficient federal funding. The NRF is not to be used, however, for opening new senior nutrition projects. We discuss several problems concerning the Nutrition Reserve Fund later in this analysis.

FEDERAL REQUIREMENTS

The 1978 amendments to the federal Older Americans Act increased the involvement of state and local governmental units in the funding and monitoring of programs for senior citizens. Recent regulations implementing the amendments significantly change the program and administrative requirements of California's aging program.

Consolidation of Nutrition Projects

Designation of AAAs. The 1978 amendments require federal money for aging programs to flow from the federal government, through a single state agency to area agencies on aging for administration of programs. Direct funding of local contractors by the state agency is prohibited. Thus, in order for federal funds to reach local programs, CDA must designate an area agency on aging in each of the state's 33 planning and service areas no later than October 1, 1980. There were 15 AAAs at the beginning of the current year, leaving 18 to be designated by the federal deadline. The department advises that it expects all 33 AAAs to be designated on schedule.

AAA Role Modification. Because many areas of the state currently are not served by an AAA, CDA maintains contracts with approximately 180 direct service agencies which provide nutrition and social services at the local level. In order to comply with the 1978 amendments, these services must be consolidated under the authority of the AAAs by October 1, 1980.

The role of the area agencies on aging will be modified when the nutrition projects come under their auspices. Rather than CDA being responsible for monitoring the nutrition projects, the AAAs henceforth will assume this responsibility.

Timely Spending of Federal Allocations

Federal appropriations for aging programs have grown at a faster rate than the capability of many states to expend funds for these programs. This has been the case in California. This appropriation/expenditure discrepancy resulted in a 1976 court decision *(Kennedy v. Matthews)* requiring the Administration on Aging to spend federal aging dollars during the same fiscal year in which Congress appropriates them.

Possible Loss of California Aging Program Dollars. Pending regulations in response to this decision authorize the federal Commissioner on Aging to reallocate the "unexpected balance" of one state to another state in order to expend the money Congress has appropriated within the same fiscal year. This change in federal policy affects California because of this state's large unexpended balance. CDA has allocated most of its unspent money to the AAAs and nutrition projects for one-time-only spending in the current federal fiscal year (by September 30, 1980). An undetermined portion of the unspent funds may be reallocated to another state if the AAAs and nutrition projects fail to spend their allocations by the required date. We discuss this onetime allocation and the department's unexpended federal balance in our analysis of CDA's fiscal management.

New State Match

The 1978 amendments also require an increase of 5 percent (to 15 percent) in the state resources required to match the federal allocation from Title III funds (social services and nutrition). The increased match requirement applies for the first time in the 1981 federal fiscal year (October 1, 1980–September 30, 1981), or for nine months of the 1980–81 state fiscal year (October 1, 1980–June 30, 1981). Thus, the increased amount of cash or in-kind resources required to match $39,525,464 of Title III funds for nine months is $1,976,273.

DEPARTMENT OF AGING—Continued

The budget proposes to meet the new matching requirement by counting program funds which are targeted for elderly clients but administered by departments other than CDA. For example, the budget identifies $63,975,000 administered by the Department of Social Services for in-home supportive services as a source for the state match, because 70 percent of the program's clients are over the age of 60. The Health and Welfare Agency has requested an opinion from the Attorney General as to the legality of this approach.

Administration on Aging's Position. The Administration on Aging has notified CDA that only funds directly administered by CDA are eligible to meet the new 15 percent state match requirement. AOA also has stated that failure to meet the 15 percent matching requirement will jeopardize California's federal support for the 1981 federal fiscal year.

Underutilization of Federal Support

We recommend that the Department of Aging report to the fiscal subcommittees during budget hearings to (1) explain the department's failure to apply for the maximum amount of funding available from the federal government, and (2) describe steps the department has taken to assure that henceforth it will receive the maximum allowable federal support for state administration.

Administration on Aging regulations provide additional funds for state plan administration. Specifically, a state agency may request up to three-quarters of 1 percent of its total Title III allocation (nutrition and social services) for this purpose. AOA advises that such requests are approved routinely.

Throughout the period of the state's participation in the federal aging program, California has never requested this additional federal money for administrative support. CDA's failure to seek federal funds violates state law as set forth in Control Section 8.5 of the Budget Act, which requires state agencies to apply for the maximum amount of funding allowable under federal law.

At the time of our analysis, CDA had prepared an application for federal administrative support based on its 1980 allocation. The delayed submission of the request, however, nearly four months after the beginning of the 1980 federal fiscal year, may result in CDA's failure to spend the money by September 30, 1980. Like other federal allocations for aging programs, the three-quarters of 1 percent administrative support must be spent within the fiscal year in which it is allocated.

We recommend that the Department of Aging report to the fiscal subcommittees during budget hearings to (1) explain the department's failure to apply for the maximum amount of funding available from the federal government, and (2) describe steps the department has taken to assure that henceforth it will receive the maximum allowable federal support for state administration.

FISCAL MANAGEMENT

Inadequate Accounting and Reporting Systems

We recommend the adoption of supplemental report language requiring that the Department of Finance's Fiscal Systems and Consulting Unit evaluate the department's accounting and reporting system and submit its findings and recommendations to the Legislature no later than November 15, 1980. This evaluation shall occur prior to the development of a computerized data system. The State Data Processing Management Office shall assist the department in the development of appropriate data processing applications for program administration.

Background. The Department of Aging (formerly the Office on Aging) has had its own accounting unit since January 1, 1974. Prior to that time, the Employment Development Department provided accounting services to the office. CDA has received significant funding increases in its short history, and as a result has had to account for increasing sums of federal dollars. During the seven-year period from 1973–74 to 1979–80, the department's annual federal allocation grew from \$14.2 million to \$63.5 million, an increase of 347 percent. In spite of these significant changes, however, the department continues to utilize the accounting system it developed in 1974. Calculations are limited to the capacity of desk calculators. Entries are posted manually on accounting sheets.

Fiscal Management System Needed. The department's failure to upgrade its accounting system and fiscal controls to keep pace with a rapidly growing program needs immediate attention. Our review indicates, however, that the department requires assistance in order to implement an appropriate fiscal management system.

In its application for additional AOA funds for administrative support, CDA proposes to utilize \$333,406 in federal funds, by September 30, 1980, to develop and implement a computerized data collection, maintenance, and retrieval system. Our review of the proposal indicates that the department has identified nine possible applications of electronic data processing, but has failed to establish fiscal control as its highest data processing priority.

In the current year, CDA also has hired an associate management analyst who will "specify in detail" the department's data needs and management information objectives. The new employee's duty statement refers to information for budget *preparation* as one category of "critical management data" CDA needs to systematize. The list of management information objectives on the duty statement does not include, however, information for fiscal control, such as point-in-time budget *expenditure* data.

Our analysis indicates it is essential for the Department of Aging to improve its control of federal funds. Such control is required not only for reporting purposes, but to assure the Legislature that federal funds are being spent to provide the maximum level of service for the amount of money available.

We therefore recommend the adoption of the following supplemental report language: "The Department of Finance's Fiscal Systems and Consulting Unit shall evaluate CDA's accounting and reporting system and submit its findings and recommendations to the Legislature no later than

DEPARTMENT OF AGING—Continued

November 15, 1980. This evaluation shall occur prior to the development of a computerized data system for the department. The State Office of Information Technology in the Department of Finance shall assist CDA in the development of appropriate data processing applications for program administration."

Sanctions Threatened Against CDA

We recommend the adoption of supplemental report language directing the Department of Aging to report to the Legislature by November 15, 1980, on (a) the dates on which the Administration on Aging received the department's quarterly reports for federal fiscal year 1980, (b) the status of the department's contracts with local service providers, and (c) CDA's progress in implementing its new payment system.

The Administration on Aging has warned the Department of Aging that its continued failure to comply with federal reporting deadlines will jeopardize California's federal allocation. Specifically, if CDA fails to report on its first quarter (October 1–December 31, 1979) expenditures by February 1, 1980, AOA has threatened to stop payment on any expenditure claims until it receives the first quarter report.

During federal fiscal years 1978 and 1979, CDA submitted late reports for *all eight* reporting periods. On four occasions during this time, CDA was more than 30 days late in transmitting its quarterly expenditures report.

Based on our review, we conclude that CDA's fiscal reporting problems emanate in part from (1) its high level of contracting activity, and (2) its advance payment system.

CDA's Contracts. Unlike aging programs in other states, California's program has expanded under the auspices of the state office rather than local agencies. Thus, as funding has increased, the department has chosen to contract with growing numbers of local service providers. In one year, CDA negotiated 329 such contracts. This contract process places a significant demand on staff because each of the contracts, once negotiated, must be monitored. In addition, local service providers typically need technical assistance in setting up accounts, managing program requirements and funds, and coordinating a complex array of services funded from diverse sources.

Direct contracting has diminished. CDA has 187 direct contracts with local service providers in the current year and will have substantially fewer than that, following consolidation of the nutrition projects under AAA authority (by October 1, 1980). This reduction in CDA's level of contracting activity should result in the department's having a more manageable workload. Thus, to the extent that present diffusion of administrative workload accounts for CDA's consistently late reporting, the reduction in CDA's contracting should enable the department to meet federal reporting deadlines.

CDA's Payment System. CDA's advance payment system also contributes to its reporting problem. The department currently advances one-twelfth of the grant or contract amount to each grantee or contractor each month without regard to actual expenditures. Because there is no incentive for these contractors to report disbursements, CDA's grantees and contractors are themselves often remiss in reporting *their* expenditures on time to the department.

Moreover, CDA's grants and contracts have variable close-out times. Consequently, there is no one point during the year at which CDA can produce accurate data on actual expenditures. In order to account for all the funds it administers in any one given federal fiscal year, the department must rely on grantee and contractor projections of their expenditures. For example, in order to develop a recent estimate of fiscal year expenditures, CDA analyzed closing statements for contracts or grants which expired March 31, 1979, and then surveyed all other grantees and contractors by telephone for estimates of their unexpended balances at the end of their grant or contract period. A major factor in the department's large unexpended balance of federal funds is its inability to ascertain at any one point in time how much of the money it has allocated, has in fact been spent.

Beginning April 1, 1980, the Department of Aging will implement "modified reimbursement." Under this payment system, each grantee or contractor will receive in the first month of the new grant or contract period either one twelfth or one-sixth (depending on need) of the full grant or contract amount. Thereafter, the grantees or contractors will receive reimbursement based on monthly reports of their actual expenditures. The last payment in the grant or contract period will be withheld until all the state and federal reporting requirements have been met.

In addition, CDA plans gradually to convert all grant and contract periods to coincide with the state fiscal year. If implementation proceeds on schedule, the two system changes should result in tighter control of program funds, beginning in the budget year.

Our analysis indicates that CDA's fiscal management practices have contributed significantly to its inability to maximize the use of federal funds for California's senior citizens. Improving fiscal controls should be the Department of Aging's highest management priority. We therefore recommend adoption of the following supplemental report language: "The Department of Aging shall report to the Legislature no later than November 15, 1980, on (a) the dates on which the Administration on Aging Regional Office received CDA's quarterly reports for fiscal year 1980, (b) CDA's progress with respect to consolidation of the nutrition projects under the authority of the area agencies on aging, particularly the status of the department's contracts with local service providers as of October 1, 1980, and (c) the department's progress in implementing its new 'modified reimbursement' payment system."

CDA's Unexpended Federal Balance

We recommend that the Department of Aging provide a report to the fiscal subcommittees prior to the budget hearings which (1) reconciles the divergent estimates of its unexpended balance of federal funds, (2) describes steps it has taken to prevent similar discrepancies in the future, and (3) advises the Legislature of its plan to spend the remainder of the current unexpended balance, including its progress in obtaining approval *for such a plan from the Administration on Aging.*

As we noted earlier in our discussion of federal requirements, the Commissioner on Aging is authorized to reallocate one state's unexpended funds to another state which has demonstrated a need for the funds and the capacity to spend them. Thus, there is a possibility that California will lose nutrition and social services program funds which are unexpended as of September 30, 1980. We discuss four recent estimates of California's unexpended balance later in this section.

Clarification of Terms. Following discussions with CDA, AOA, and local aging programs, we have concluded that much of the confusion regarding the status of CDA's federal funds emanates from confusion over the meaning of various accounting terms used to describe the amount of federal money available for expenditure. The following definitions are intended to clarify the meaning of these terms and explain CDA's various roles as the single state agency responsible for administering Older Americans Act funds.

- *"Allocated"* means that a specific amount of money, from the total amount of money made available by the federal government, has been earmarked for potential grantees and/or contractors by CDA. In order to become eligible to receive allocated funds, potential grantees and/or contractors must submit budgets for CDA's review and approval. ("Allocated" and "allotted" are interchangeable.)
- *"Obligated"* means that the budgets submitted by the potential grantees have been approved by CDA, which in turn has signed either notices of grant awards or contracts. Thereafter, the grantees and contractors are authorized to spend up to the amounts of their allocations. ("Obligated" and "committed" are interchangeable.)
- *"Expended"* means that the grantees and/or contractors have submitted claims to CDA for expenses incurred and have requested receipt of the funds obligated to them.
- *"Unexpended balance"* refers to money which has been allocated and obligated but either has not yet been approved for expenditure by CDA *or* has not been claimed from CDA by the grantees and contractors. The unexpended balance also includes funds available for reallocation.
- *"Reallocated"* means that funds which were at one time obligated to one grantee or contractor have been allocated to a new grantee or contractor.

CDA allocates all its federal funds each year, using a per capita based allocation policy, adjusted to provide minimum base amounts for planning and service areas with small populations. In addition, a 5 percent supplement for rural areas is required by federal regulations. As the accounting definitions and our discussion of the department's fiscal management practices indicate, however, *allocating* the funds does not necessarily mean that the funds will be *expended.*

Divergent Estimates of CDA's Unexpended Balance. During last year's budget hearings, the Department of Aging advised the Legislature regarding the amounts of federal money it had received and spent for nutrition and social services from federal fiscal year 1973 through federal fiscal year 1979. Allocations, based on CDA's figures, totaled approximately $177.9 million. Expenditures (including projected expenditures for 1979) totaled approximately $174.8 million, leaving an unexpended balance of approximately $3.1 million, as of September 30, 1979.

On September 13, 1979, the Auditor General sent a memorandum to the Joint Legislative Audit Committee (JLAC) reporting on the status of California's Older Americans Act funds as of June 30, 1979. Having reviewed the Department of Aging's allocation and expenditure records since fiscal year 1974 (thus, excluding the $13.4 million CDA received for fiscal year 1973), the Auditor General reported that CDA had received a total of $157.6 million for nutrition and social services, and had spent $132 million, leaving an unexpended balance of $25.6 million (unaudited) as of June 30, 1979.

In November 1979, CDA developed a detailed estimate of its unexpended balance as of September 30, 1979. It revised its prior estimate of $3.1 million upward to $11.2 million.

One month later, in December 1979, the Department of Aging reported to the Administration on Aging (51 days late) on fiscal year 1979 expenditures. AOA's review of the expenditure report indicates that CDA's unexpended balance of federal funds for nutrition and social services was $15.5 million as of September 30, 1979, $4.3 million, or 38 percent, more than CDA's November estimate.

Table 2 summarizes the four estimates of CDA's unexpended balance.

Table 2
Department of Aging
Unaudited Estimates of Unexpended Federal Funds
for Nutrition and Social Services
As of September 30, 1979

Date of Estimate	*Source*	*Estimated Unexpended Balance*
February 20, 1979	California Department of Aging	$3.1 million
September 13, 1979	Auditor General of California	$25.6 million[a]
November 14, 1979	California Department of Aging	$11.2 million
December 21, 1979	Administration on Aging	$15.5 million

[a] As of June 30, 1979

Allocation Plan. In 1976–77 the department implemented a procedure called "accelerated spending" to reduce its balance of unexpended federal funds. (We discuss the effectiveness of "accelerated spending" later in this analysis.) The 1978 amendments to the Older Americans Act gave additional impetus to the department's efforts to deplete the unexpended balance by authorizing the Commissioner on Aging to reallocate unexpended funds to another state. Thus, in November 1979, CDA notified its grantees and contractors that they would receive "accelerated spending supplements" which would be available for one-time-only expenditure from January 1 through September 30, 1980.

As we noted earlier, federal funds for aging programs must be spent within the same fiscal year in which they are allocated. AOA's position is that, at a minimum, the federal allocation must be *obligated* by September 30 to prevent the Commissioner on Aging from reallocating the unex-

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pended balance to another state.

Reserve Fund Established. By November 1979, CDA had allocated only $8.2 million of the estimated $11.2 million unexpended balance. The department expects the $8.2 million to be *obligated* to its grantees and contractors by September 30, 1980. The department is holding the remaining $3 million in reserve to allocate to the AAAs for expenditure for social services during the 1981 federal fiscal year. Beginning October 1, 1980, consolidation of the nutrition projects under the authority of the AAAs will require that the AAAs fund social services currently paid for out of program funds for nutrition. CDA believes that it can sufficiently justify its delayed obligation of this $3 million to the Commissioner on Aging so as to preclude his reallocation of the unexpended funds to another state.

Table 3 identifies the components of CDA's $11.2 million estimate of the unexpended balance. It includes $980,005 of funds unexpended during the 1978 federal fiscal year (October 1, 1977, to September 30, 1978). CDA uses the prior year's unexpended funds *first* in paying claims against the monies obligated to the 33 planning and service areas.

Table 3
Department of Aging
Unexpended Balance of Federal Funds
Period Ending September 30, 1979

1979 Title III-B and Title III-C	$23,718,078 [a]
1978 Title III-B and Title III-C Balance	980,005 [a]
Subtotal	$24,698,083
Estimated amount to be claimed	–13,549,248 [b]
Total unexpended balance	$11,148,835
Title III-B Social Services	*4,848,827*
Title III-C (1) Nutrition Services	*6,300,008* [c]

a. Source: Auditor General Memorandum to the Chairman of the Joint Legislative Audit Committee, September 13, 1979.
b. Source: California Department of Aging.
c. Source: CDA Policy Memorandum #CDA-PM-79-5, November 14, 1979.

CDA's Response to Federal Requirements. CDA's response to the federal requirements concerning the unexpended balance raises three issues: First, federal policy requires that federal allocations for aging programs be *spent* within the fiscal year in which the allocations are received. Thus, there is no guarantee that the Administration on Aging will make an exception for the establishment of a $3 million reserve fund in California.

Second, CDA allocated the $8.2 million portion of the unexpended balance through the existing service delivery network. That network—which will more than double during the current federal fiscal year—has not yet demonstrated a capacity to spend its annual allocations. There is no reason to expect that, in the eight months remaining until the spending deadline, the network will develop a capacity to spend at rates *above* its allocation.

Third, the department will begin administering a new program this year: home-delivered meals. CDA has received a separate allocation of $4,473,126 for this program. We are advised, however, that the Administration on Aging has yet to develop regulations stipulating the program requirements for this new funding category. Thus, although CDA is planning to begin implementation of home-delivered meals during the current federal fiscal year, there is reason to expect that the department will not be able to spend its entire Title III-C(2) allocation by September 30, 1980.

In summary, even if CDA allocates 100 percent of the estimated balance using its existing allocation mechanisms, our analysis indicates that the department is likely to have an unexpended balance as of September 30, 1980.

We therefore recommend that the Department of Aging provide a report to the fiscal subcommittees prior to the budget hearings which (1) reconciles the four divergent estimates of the department's unexpended balance of federal funds, (2) describes what steps it has taken to prevent similar discrepancies in the future, and (3) advises the Legislature of its plan to spend the $3 million which has not been allocated from the current unexpended balance, including its progress in obtaining the Commissioner on Aging's approval.

"Accelerated Spending"

We recommend the adoption of supplemental report language directing the Department of Aging to release funds from its unexpended balance through a request for proposals (RFP) process, rather than through standard allocations.

CDA embarked on a new spending policy in 1976–77. At that time, California had received a total of $67.2 million in federal funds for nutrition and social services and had spent $54.7 million, or 81 percent. In order to spend the unexpended balance of $12.5 million, CDA developed a plan to spend more than its federal allocation level over a period of six years. The department anticipated reducing its spending to no more than its allocated level by federal fiscal year 1981. CDA has referred to this plan as "accelerated spending."

Chart 1 displays federal funds which have been allocated and spent for California's nutrition and social services programs for senior citizens from federal fiscal year 1973 through federal fiscal year 1979. (A current year estimate is not included due to data limitations.) Prior to "accelerated spending" in fiscal year 1977, expenditures lagged behind allocations, as Chart 1 shows.

Chart 2 provides perspective on the effectiveness of accelerated spending in reducing the unexpended balance. The chart indicates that CDA would have entered the current federal fiscal year with an unexpended balance of $3.1 million. The department now estimates the unexpended balance was $11.2 million as of September 30, 1979. We are unable to reconcile the difference.

The Weakness of the Accelerated Spending Mechanism. CDA conceived of accelerated spending as a means of distributing its unexpended balance of federal funds for nutrition and social services through the existing service delivery network. The existing local programs vary, however, in their capacities to administer large amounts of temporary funding and to plan successfully either to draw in funds later from alternative sources or to reduce service levels without imposing hardships. Our

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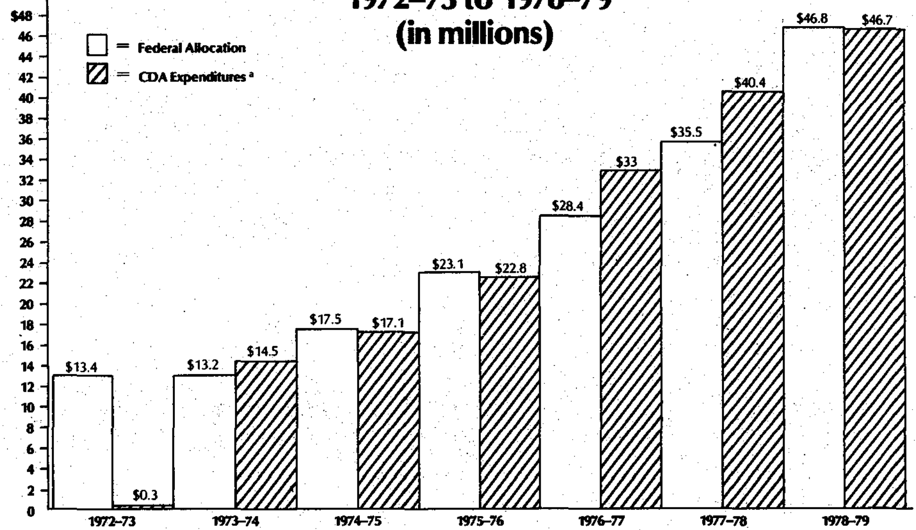
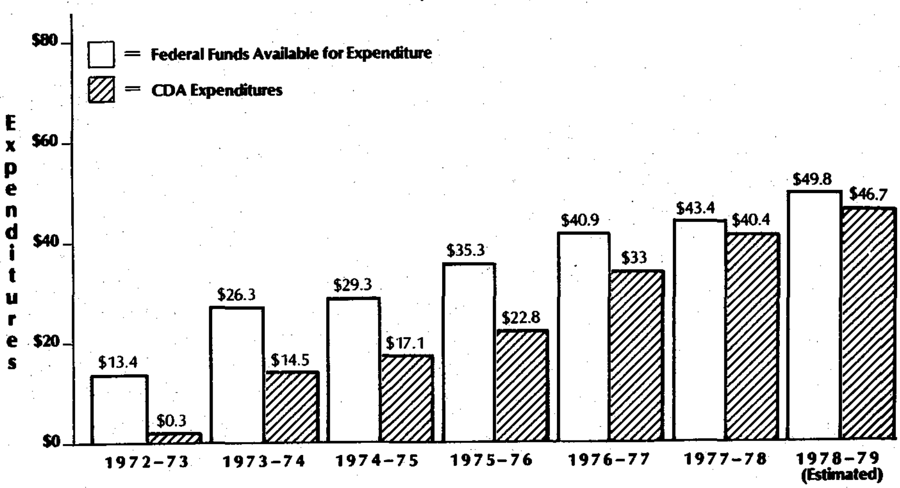
Chart 1
Department of Aging
Federal Funds Allocated and Spent for State Administration, Social Services, and Nutrition Projects 1972–73 to 1978–79 (in millions)



SOURCE: Department of Aging, "Preliminary Budget Review", February 20, 1979.

[a] Program operations, personnel, and operating expenses.

Chart 2
Department of Aging
Growth of "Unexpended Balance" of Federal Funds for Nutrition and Social Services 1972–1979 (in millions)



SOURCE: Department of Aging, "Preliminary Budget Review", February 20, 1979.

analysis suggests that the weakness of the accelerated spending mechanism is that it releases funds through the same allocation process which produced the unexpended balance in the first place.

The department needs to develop a mechanism that will facilitate expeditious but responsible spending of money which becomes available unexpectedly and for limited periods. The federal requirement to spend federal allocations for aging programs within the fiscal year demands that the department be prepared to distribute unexpected funds in an equitable but timely way. An RFP process would allow all aging programs that are prepared for such contingencies to compete for new or temporary funding. The RFP mechanism also would permit the department an opportunity to exercise program and policy leadership by requesting proposals for program expenditures and innovations it wants to reinforce or promote.

We therefore recommend adoption of the following supplemental report language: "The Department of Aging shall release funds from its unexpended balance through a request for proposals (RFP) process. CDA shall take appropriate steps to assure balance in the distribution of funds, based on the proposals it receives rather than on existing formula-based allocations to local programs."

NUTRITION

Program Requirements

The objective of the nutrition program is to provide low-cost, nutritionally sound meals to needy senior citizens on a regular basis in attractive surroundings. Federal regulations require that each project be located in an area serving target groups of eligible persons having the greatest need for nutrition services. The criteria for selecting target groups include the number of elderly persons who do not eat adequately because of poverty, lack of knowledge, limited mobility, or lack of motivation. Each nutrition project approved by the department is usually required to serve, in a social setting, a minimum of 100 nutritionally balanced meals, five days or more a week.

Meals in a Social Setting

California's nutrition projects served a total of 13,039,443 meals during federal fiscal year 1979 (October 1, 1978–September 30, 1979) for an average of 50,152 meals per day, five days per week. The total cost of the meals was $37,683,990, or an average of $2.89 per meal.

Persons 60 years of age or older, and their spouses, are eligible to participate in the nutrition program. Generally, volunteers prepare and serve the meals. The volunteers and occasional visitors also eat at the projects. Thus, out of the 13,039,443 meals served in 1979, 12,789,365, or 49,190 meals per day, were served to seniors. This number of participants is approximately 1.64 percent of the eligible population statewide. An average of 962 meals per day, or 250,078 per year, were served to nonseniors.

Cost Per Meal. In federal fiscal year 1979, the average total cost per meal served in California's nutrition projects was $2.89. Of that amount, the federal share was $1.84. Title III-C of the Older Americans Act paid

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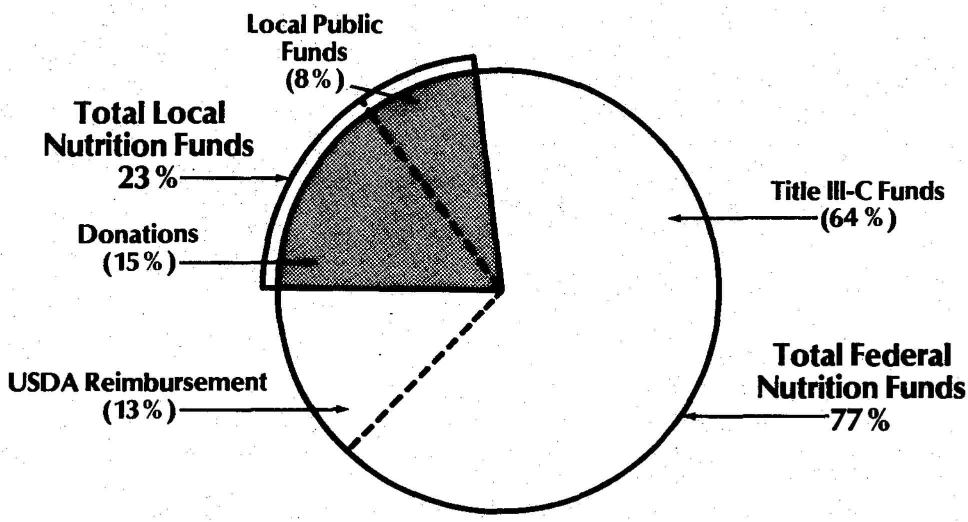
$1.46 per meal while the U.S. Department of Agriculture (USDA) reimbursed 38 cents. The remaining $1.05 per meal was paid from local sources, including county funds (Revenue Sharing or Title XX), contributions from private organizations, and an average donation of 44 cents per meal from the participants.

General Fund participation in the state's nutrition program in the budget year consists of $169,051 in support for the Senior Nutrition and Volunteer Project (SNVP), which will terminate September 30, 1980, and approximately $1,500,000 in emergency assistance from the Nutrition Reserve Fund.

Of the $37,683,990 total cost of the nutrition program in the 1979 federal fiscal year, the federal share from Title III-C and the USDA reimbursement was $28,916,480, or 77 percent. Local sources paid the remaining costs of $8,767,510, or 23 percent. Chart 3 displays the federal and local shares of funding for California's nutrition program.

Chart 3
Department of Aging
Nutrition Program Funding
October 1, 1978–September 30, 1979



Source: California Department of Aging

Home-Delivered Meals

One of the 1978 amendments to the Older Americans Act established a new category for nutrition project funding: home-delivered meals. CDA estimates that prior to the amendments, 12.2 percent of the meals served in 1979, or 1,590,812, were home-delivered meals. The department has not separately estimated the average cost per home-delivered meal. To the extent that new federal appropriations cover the costs, the level of service in this category will increase. The first appropriation for home-delivered meals was made in the current federal fiscal year. California's first allocation for this purpose was $4,473,126.

AOA has not yet developed regulations for this program. Thus, even though CDA intends to begin home-delivered meals operations July 1, 1980, it is likely that some portion of the department's $4.4 million allocation will remain as an unexpended balance at the close of the current federal fiscal year (September 30, 1980).

Nutrition Projects Require Better Management

We recommend adoption of supplemental report language directing that the Department of Aging report to the Legislature by September 1, 1980, on steps it has taken to (1) develop a new sanctions policy for use in establishing effective management of California's nutrition projects, (2) prepare the area agencies on aging to implement the new sanctions policy beginning October 1, 1980, and (3) deny funding to any area agency on aging which has not demonstrated the capacity to impose sanctions by that date.

Inadequate Evaluation and Monitoring. CDA is responsible for monitoring all nutrition projects with which it contracts directly. Currently, California has a total of 132 nutrition projects. After October 1, 1980, each one will be monitored by the area agency on aging in that nutrition project's planning and service area.

The Department of Aging's assessment reports indicate that many of the state's nutrition projects have been found to be operating in violation of health and safety codes. Based on a desk audit of CDA's quarterly assessment reports, the Auditor General reported to the Joint Legislative Audit Committee on June 5, 1979 (Report Number P-909), that some of the standards most frequently violated by the nutrition projects during 1978–79 included:

1. Improper food preparation;
2. Improper sanitation in food storage and preparation; and
3. Improper sanitation in the distribution of meals.

The Auditor General concluded that the department's evaluation and monitoring procedures with respect to the nutrition projects are deficient. Specifically, the Auditor General found that the department:

1. Has not completed quarterly assessment reports on all of the nutrition projects, as required by federal regulations (this requirement has been removed from pending regulations);
2. Lacks a standardized format for assessing the nutrition projects' compliance with state and federal regulations; and
3. Lacks a systematic follow-up procedure for insuring that violations discovered in the assessment process have been corrected.

The Auditor General recommended that CDA (1) develop uniform procedures to assess all projects quarterly, (2) implement policies to monitor and correct compliance violations, and (3) provide staff training to assure reporting consistency and effective project monitoring.

CDA Response. In a letter dated December 7, 1979, the director of CDA advised the Joint Legislative Audit Committee of its progress in responding to the Auditor General's findings. CDA has developed an assessment report format and trained assessment staff in consistent monitoring procedures and report writing.

During the final quarter of the 1978–79 fiscal year, CDA assessed 62 nutrition projects, which consisted of the nutrition projects not yet consolidated under the auspices of an AAA at that time.

Monitoring and Correcting Compliance Violations. Virtually all 62 nutrition projects were out of compliance with at least one health and safety standard. The total number of violations cited was 333. Of those, 182 were reported corrected in the department's December 7 letter. An additional 87 violations were expected to be corrected by December 31, 1979.

Inadequate Fiscal Control. In recent years, at least two nutrition projects have experienced serious fiscal difficulties. First, the nutrition project serving Inyo and Mono Counties ran out of funds and closed temporarily for two and one-half months. CDA provided the technical assistance required in order for the project to reopen and continue serving meals.

Second, the Superior California Senior Services Nutrition Project, serving 10 northern counties, terminated its contract with CDA when it ran out of funds during the fall of 1979. The department negotiated individual contracts with the 10 counties involved, enabling meals to be provided once again in those areas.

Our analysis indicates that fiscal management problems can be identified and corrected before they become so serious that meal service must be interrupted.

Fiscal Sanctions. The State of Washington's Bureau of Aging (hereafter referred to as the bureau) has established fiscal management controls in that state's aging programs, including nutrition projects, through the use of "fiscal sanctions." These sanctions have proven to be effective.

The bureau authorizes the area agencies on aging to spend only according to plans and budgets approved by the bureau. The plans that the AAAs submit to the bureau contain projected rates of monthly expenditures. The bureau, which reimburses the AAAs monthly for actual expenditures, carefully monitors how the actual expenditures compare with the projections. Consequently, the bureau is alerted immediately if an AAA is "overspending" and takes action, whenever necessary, to correct the situation. The AAAs do not receive payment until the bureau has received their monthly reports. Thus, the AAAs do not fail to submit their reports on time.

Consolidation of the nutrition projects under the auspices of the AAAs was completed in Washington in January 1978. Thus, the AAAs currently have the same funding and monitoring relationship with the nutrition projects which the bureau has with the AAAs. In California, consolidation will have this same effect beginning October 1, 1980.

CDA's Sanctions Policy. CDA did establish a sanctions policy as leverage to correct health and safety code violations. The department advises, however, that the sanctions policy has not been implemented because (1) the violations were minor (for example, one employee was found not to be wearing a hairnet), (2) a cited project has moved to a new location and thus is no longer in violation, or (3) the project is now consolidated under the local area agency on aging.

Our assessment of the sanctions policy CDA developed is that it cannot be implemented because it is too complex. The department tried to anticipate a range of behaviors its contractors might exhibit in reaction to being cited for violations, and then proceeded to limit its own discretion and flexibility by committing itself to a specified response in each case.

Our analysis indicates that the Bureau of Aging's simpler approach of denying funds until violations are corrected is more workable, because it puts the burden of taking corrective action on the grantee or contractor, rather than on the bureau. CDA lacks sufficient staff resources to implement the progressively punitive stages of follow-up actions required by its own existing sanctions policy.

After October 1, 1980, CDA will no longer be the entity responsible for monitoring the nutrition projects, because the AAAs will have assumed that responsibility under the rules for consolidation. The Department of Aging is obligated, nevertheless, to provide leadership to the AAAs as they move into their new monitoring role.

We therefore recommend the following supplemental report language be adopted: "The Department of Aging shall report to the Legislature no later than September 1, 1980 on steps it has taken to (1) prepare a new sanctions policy for use in establishing effective management of California's nutrition projects, (2) prepare new and existing area agencies on aging to implement the new sanctions policy beginning October 1, 1980, and (3) deny funding to any AAA which has not demonstrated the capacity to impose such sanctions by that date."

Nutrition Reserve Fund Budget Display

We recommend adoption of supplemental language directing the Department of Finance to display the balance of the Nutrition Reserve Fund (NRF) and not include estimates of projected expenditures, beginning in the 1981–82 Governor's Budget.

Chapter 1189, Statutes of 1979 (AB 987), appropriated $5 million from the General Fund without regard to fiscal year for transfer to the Nutrition Reserve Fund (NRF) established by the act. The statute was enacted as a result of reports from the nutrition projects that inflation was increasing their costs so significantly that they were unable to maintain the level of service they had contracted with CDA to provide. Thus, they were forced either to (1) overspend their contracts, (2) reduce the number of meals they served, or (3) sacrifice the quality of meals they prepared.

With an unexpended balance of approximately $11.2 million (discussed earlier), CDA could have increased the nutrition projects' allocations sufficiently to offset the effects of inflation. The department advises that it did not do so because it wanted to avoid future service cutbacks which it believes would be inevitable once the $11.2 million has been spent.

Chapter 1189 authorizes the Director of the Department of Aging to allocate up to $300,000 to any individual nutrition project in any one fiscal year in order to maintain services which lack sufficient *federal* funding. The NRF is not to be used, however, for opening new senior nutrition projects. The Nutrition Reserve Fund is to be used *only* to continue the level of services which exists in a program at the time the program experiences financial difficulty. No expansion of services was authorized by the act.

Department of Finance's Role. The Assembly Committee on Aging notified the directors of CDA and the Department of Finance (DOF) on September 14, 1979, that it wanted to clarify its intent with regard to the Nutrition Reserve Fund. The committee indicated that funds should not be expended from the NRF without the approval of the director of DOF, and requested that appropriate administrative actions be taken to meet legislative intent. DOF subsequently requested CDA to submit "pertinent fiscal and program data" with any request for emergency assistance from the Nutrition Reserve Fund.

The budget estimates an expenditure of $900,000 from the NRF in the current year, and proposes an expenditure of $1,500,000 in the budget year. Budgeting specific amounts of money from the NRF will encourage the nutrition projects to consider it as a state augmentation to the existing federal funds for nutrition, rather than as a reserve to be relied on only in emergencies.We understand from the department, for example, that one nutrition project has requested an additional $111,000 from the NRF in its grant application for $234,000 in Title III-C funds, for a total grant amount of $345,000.

We therefore recommend adoption of the following supplemental report language: "The Department of Finance shall report the balance of funds available from the Chapter 1189 appropriation rather than including estimates of withdrawals from the Nutrition Reserve Fund as projected expenditures, beginning in the 1981–82 Governor's Budget."

Nutrition Reserve Fund Follow-up Legislation

We recommend legislation be enacted to (1) provide for local review of requests for assistance from the Nutrition Reserve Fund, (2) require a local match for this emergency assistance, and (3) limit the number of times any individual project will receive such funding.

Our analysis indicates that the Legislature may wish to clarify the intended use of the Nutrition Reserve Fund for several reasons.

First, due to what appears to be a *budgeted* nutrition reserve amount of $1.5 million in the state's proposed 1980–81 budget, the nutrition projects may lack adequate incentives to manage their fiscal affairs successfully. In other words, earmarking this money for "bailout" may encourage the nutrition projects to overspend their allocations.

CDA is in an awkward position with respect to the Nutrition Reserve Fund (NRF). Recommending approval of requests for assistance from the NRF puts the department in the position of "rewarding bad management." If the department does not recommend emergency aid approval, however, the project in question may be forced either to reduce its level of service, sacrifice food and meal preparation quality, or close operations temporarily at whatever point it runs out of funds.

Second, area agencies on aging and the communities they serve must accept an appropriate share of the responsibility for assuring the successful management of the California nutrition projects. CDA has only a small number of employees available to offer the intensive technical assistance and training required to establish and maintain effective management of a program which involves a complex array of services. Similarly, terminating a project's contract and seeking alternative meal providers in the same community also places demands on CDA's staff resources. Consequently, neither approach can be implemented as a matter of routine.

Finally, the Administration on Aging recently revised its policy regarding the state expenditures to which the federal "maintenance of effort" requirement applies. Prior to the 1978 amendments, AOA required states to maintain only state expenditures for state administration. Since the amendments, however, AOA has extended the requirement to state expenditures for *both* administration and program services.

Historically, the state has not provided General Fund support for the nutrition program, except for providing a local $50,000 match for the Inter-Tribal Council and support for demonstration projects which included meals as one component. Thus, the projected expenditures from the Nutrition Reserve Fund represent major new expenditures of state resources. If CDA uses any portion of the $5 million to meet the requirement to increase state match by 5 percent, the state will thereafter be committed to comparable expenditures from a fund which was intended for use on an emergency basis only.

We conclude from our analysis that strengthening fiscal controls for expenditures from the Nutrition Reserve Fund would be appropriate. We therefore recommend that legislation be enacted to (1) provide for local review of requests for assistance from the Nutrition Reserve Fund, (2) require a local match for this emergency assistance, and (3) limit the number of times any individual project will receive such funding.

Health and Welfare Agency

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

Items 280–282 from the General Fund — Budget p. HW 18

Requested 1980–81	$67,692,439
Estimated 1979–80	59,627,545
Actual 1978–79	58,209,010
Requested increase (excluding amount for salary increases) $8,064,894 (+13.5 percent)	
Total recommended reduction	$140,000
Recommend transfer to Item 360 (University of California)	$500,000

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
280	State Operations	General	$6,141,367
281	Local Assistance for Alcohol Programs	General	33,639,164
282	Local Assistance for Drug Programs	General	27,911,908
	Total		$67,692,439

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Acupuncture. Reduce Item 280 by $140,000.* Recommend deletion of proposed acupuncture demonstration project that duplicates existing federal efforts.	677
2. *Alcohol Research Center. Transfer $500,000 to Item 360.* Recommend transfer of administrative authority from department to University of California.	677
3. State Assumption of Drug Programs Now Funded Directly by Federal Government. Withhold recommendation pending receipt of information regarding state funds used as nonfederal match.	680

GENERAL PROGRAM STATEMENT

The Department of Alcohol and Drug Programs (DADP) is responsible for directing and coordinating the state's efforts to prevent or minimize the effects of alcohol misuse, narcotic addiction, and drug abuse. The department originally was established as the Department of Alcohol and Drug Abuse by Chapter 1252, Statutes of 1977 (SB 363). Chapter 679, Statutes of 1979 (AB 272), effective January 1, 1980, mandated a change in the department's name as well as a number of changes in the administration of the state's alcohol programs. The department is composed of the Divisions of Administration, Alcohol Programs, and Drug Programs. Currently, an "interim" Division of Planning, Evaluation, and Research is testing the applicability of combining drug and alcohol activities under unified administrative control.

Division of Administration

Administration provides the following services: (1) fiscal audits of county alcohol and drug programs, (2) fiscal management, including budgets, contracts, accounting and business services, (3) coordination of staff training and development, (4) personnel, and (5) public information.

Division of Alcohol Programs

The Alcohol Programs Division has three components:

County Liaison and Fiscal Support. Liaison staff provide technical assistance to eight geographical regions by means of county program budget reviews and site visits.

Quality Assurance. This unit (1) evaluates the quality of local services, (2) certifies programs to permit recovering alcoholics to receive disability benefits from the Social Security Administration, and (3) sets the participant fees for the drinking driver program.

Program Development and Training. All of the division's demonstration projects are coordinated by this unit, including (1) alcoholism prevention, (2) the public inebriate program, (3) programs for state employees and other labor and management groups, and (4) four special population commissions.

Division of Drug Programs

The Drug Programs Division also has three components:

Prevention and Training. This section monitors contracts with trainers who provide training at the local program level. Three major projects currently are monitored by the unit: (1) the state prevention coordination project (SPCP), funded by the National Institute on Drug Abuse (NIDA), (2) phencyclidine hydrochloride (PCP) training, and (3) the statewide training support program (STSP), also funded by NIDA.

Program Services. This unit monitors the performance of each local program by means of site visits conducted at least three times per year and an annual evaluation of (1) general management, (2) fiscal management, and (3) client case management, therapy, and treatment.

Projects Management. This unit writes and monitors contracts and processes expenditure claims.

Division of Planning, Evaluation, and Research (Interim)

This division (1) collects and analyzes data, (2) coordinates electronic data processing, (3) conducts evaluation studies, and (4) handles planning and research for alcohol and drug programs.

Changes in State Law

Chapter 679, Statutes of 1979 (AB 272), amended the roles of state and local governments in dealing with alcohol problems, but the act maintained the provisions in existing law which make application for state funds and compliance with state requirements *optional* on the part of counties. The changes affected (1) the state-county relationship with regard to funding and program administration, (2) the membership and functions of county advisory boards, (3) state and county relationships with health planning agencies, (4) services to persons convicted of driving while under the influence of alcohol, (5) state and county matching funds, and (6) fees and other sources of revenue for programs and services.

In addition, Chapter 679 clarified the Legislature's intent in AB 8 with respect to local matching funds for alcohol programs. During the 1979–80, 1980–81, and 1981–82 fiscal years, the required county match will be waived, except for state hospital services provided on and after January 1, 1980. From January 1, 1980 through June 30, 1982, the funding of state hospital services for alcohol-related problems will be on the basis of 90 percent state funds and 10 percent county funds. Beginning with the 1982–83 fiscal year, the 90-10 funding formula will apply to the county sponsored alcohol programs as well.

ANALYSIS AND RECOMMENDATIONS

The budget proposes three appropriations totaling $67,692,439 from the General Fund for support of department activities in 1980–81, which is an increase of $8,064,894, or 13.5 percent, above estimated current year expenditures. This amount will increase by the amount of any salary or staff benefits approved for the budget year.

The department proposes General Fund *baseline adjustments* totaling $3,902,246 which reflect: (1) increased personnel costs ($177,937), (2) price increases, including a cost-of-living adjustment in the local assistance

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

budget ($4,880,702), (3) planning estimate adjustment ($−7,960), and (4) nonrecurring program expenditures ($−1,148,433).

The department is requesting an additional $4,162,648 from the General Fund for *program changes* that would: (1) transfer certification of methadone laboratories from DADP to the Department of Health Services ($−140,025), (2) transfer funds from the Department of Mental Health to DADP for administration of drug abuse program funds at Metropolitan State Hospital in Los Angeles ($3,203,130), (3) establish an acupuncture research demonstration project ($140,000), (4) provide the state match for additional federal drug abuse program funds ($63,681), (5) expand audit functions ($475,994), and (6) support the alcohol research center ($419,868).

Total 1980–81 expenditures for the Department of Alcohol and Drug Programs, including federal funds and reimbursements, are projected at $102,086,090, an increase of $16,750,491, or 19.6 percent, over estimated current year expenditures.

Table 1 details the department's proposed budget changes by each funding source.

Table 1
Department of Alcohol and Drug Programs
Proposed 1980–81 Budget Changes
(All Funds)

	General	*Federal*	*Reimbursements*	*Total*
1979–80 Current Year Revised	$59,627,545	$25,667,509	$40,545	$85,335,599
1. Baseline Adjustments				
A. Increase in existing personnel costs	$177,937	$39,807		$217,744
1. Salary adjustments	(55,910)	(34,501)		(90,411)
2. Salary savings adjustment	(114,025)			(114,025)
3. OASDI	(8,002)	(5,306)		(13,308)
B. Price increase (including local assistance cost-of-living adjustment)	$4,880,702	$1,661,107		$6,541,809
C. Planning estimate adjustment	$−7,960			$−7,960
D. Nonrecurring expenditures	$−1,148,433	$−2,721,782		$−3,870,215
1. Special projects		(−438,934)		(−438,934)
2. Drug program contract extension		(−2,282,848)		(−2,282,848)
3. Public inebriate demonstration project	(−400,000)			(−400,000)
4. Phencyclidine hydrochloride (PCP) program	(−355,000)			(−355,000)
5. Budget Act of 1976, Item 280(g) (alcohol research center)	(−393,433)			(−393,433)
Totals, Baseline Adjustments	$3,902,246	$−1,020,868	$-0-	$2,881,378
2. Program Change Proposals				
A. Transfer certification of methadone laboratories to Department of Health Services	(−140,025)			(−140,025)
B. Transfer drug abuse funds from Department of Mental Health	(3,203,130)			(3,203,130)
C. Acupuncture demonstration project	(140,000)			(140,000)

D. Assumption of federal drug abuse funds	(63,681)	(9,706,465)		(9,770,146)
E. Expand audit functions	(475,994)			(475,994)
F. UCLA alcohol research center	(419,868)			(419,868)
Totals, Program Change Proposals	$4,162,648	$9,706,465		$13,869,113
Total, Budget Changes	$8,064,894	$8,685,597	$-0-	$16,750,491
1980–81 Proposed Expenditures	$67,692,439	$34,353,106	$40,545	$102,086,090

Currently, there are 192 authorized positions in the Department of Alcohol and Drug Programs. For the budget year, the department is requesting 36 additional staff (an increase of 18.75 percent) for a proposed total of 228 authorized positions. Twelve of the 36 new positions (six professional and six clerical) are proposed for authorization beginning January 1, 1981. These positions are requested to administer federal funds which currently are administered directly by the National Institute on Drug Abuse (NIDA). The remaining 24 positions are proposed for an expansion of the department's auditing capability; 11 of the positions are being transferred to DADP from the Department of Finance.

Proposed Administrative Transfers

Metropolitan State Hospital. The department proposes to assume administrative oversight of $3,203,130 currently utilized by the Department of Mental Health (DMH) for drug abuse treatment at Metropolitan State Hospital in Los Angeles County. DADP advises that drug program funds within DMH's budget are "vulnerable to reallocation" to other services, based on the mental health program's priorities. This transfer consolidates funding of drug abuse programs in one state agency.

Licensing and Regulation of Urinalysis Testing. Chapter 429, Statutes of 1978 (SB 1596), transferred the responsibility for licensing and regulation of laboratories which perform the urinalysis testing required in state-approved methadone maintenance programs from DADP to the Department of Health Services (DHS). The funds to support this function, however, have remained in DADP's budget. The department proposes to transfer $140,025 from its support budget to the Department of Health Services to correct this discrepancy.

Audit Team Expansion. Federal regulations require, as a condition for continued funding, that local alcohol and drug programs which receive federal funds through the single state agency be audited at least once every two years. Currently, the department has five auditors. Four are assigned to audit 57 county alcohol programs (300 county provider contracts) and one is assigned to the state's drug programs. In order to audit the 27 county drug programs (250 county provider contracts), the department currently contracts with the Department of Finance for the services of 10 additional auditors.

DADP proposes to consolidate state audit efforts in the budget year. Of the 24 proposed positions, 11 will be transferred from the Department of Finance to continue drug program audits. The 13 new positions will be used to expand the department's overall alcohol and drug program auditing capacity to include comprehensive program and management audits in addition to fiscal audits.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

We have reviewed the proposed administrative adjustments and recommend their approval.

State and Federal Support for Alcohol and Drug Programs

In fiscal year 1974–75, 88 percent of the support for alcohol programs came from the General Fund and 12 percent from federal sources. There has been little change in this funding relationship. In the current year, alcohol programs receive 86.5 percent of their support from the General Fund and 13.5 percent from federal funds. The amount of General Fund support increased 73 percent between 1974–75 and 1979–80.

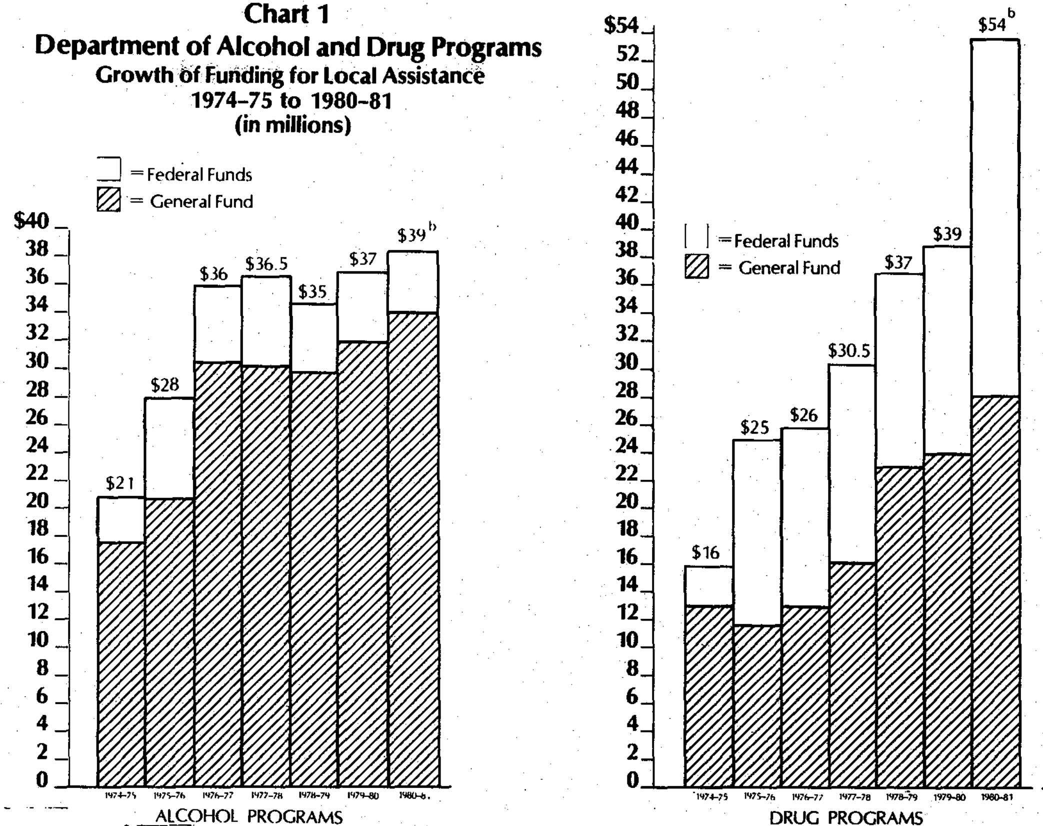
In the drug program, on the other hand, the State provided 81.3 percent of the funds and the federal government provided 18.7 percent in 1974–75. Federal financial participation has increased 119 percent during the last four years, resulting in a 59 : 41 state/federal cost sharing ratio in the current year. The amount of General Fund support has increased 77 percent since 1974–75.

Chart 1 shows the state/federal cost sharing relationship for local assistance to alcohol and drug programs since 1974–75. Of the approximately $93 million proposed expenditures for the 1980–81 budget year, $62 million, or 66 percent, is from the General Fund and $31 million, or 34 percent, is from federal funds.

The department proposes total expenditures in the budget year of $102,086,090, an increase of $16,750,491, or 19.6 percent, over estimated 1979–80 expenditures. The assumption of responsibility for grants and contracts currently administered by the National Institute on Drug Abuse (NIDA) accounts for approximately $10 million of this increase (we discuss the department's proposal to assume the "NIDA-directs" later in this analysis). The increase of federal dollars for drug programs will shift the total state/federal support ratio for alcohol and drug programs from 72 : 28 in the current year to 66 : 34 in the budget year. Chart 2 displays the source of funds for department programs.

Local assistance is by far the department's largest expenditure item, accounting for $92,817,544, or 91 percent, of DADP's total proposed budget for 1980–81. Of the $92.8 million, 38 percent, or $38,883,600, is proposed for expenditures in alcohol programs and 53 percent, or $53,933,944, is requested for drug programs. State operations are proposed at $9,268,546, or 9 percent of the total budget. The proposed expenditures are shown in Chart 3.

Chart 1
Department of Alcohol and Drug Programs
Growth of Funding for Local Assistance 1974–75 to 1980–81 (in millions)



SOURCE: The Department of Alcohol and Drug Programs (DADP)

[a] The funding amounts shown in this chart do not include money which the federal government has awards directly to individual alcohol and drug programs throughout California.

[b] Requested for 1980–81.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Chart 2
Department of Alcohol and Drug Programs State/Federal Sharing Relationships

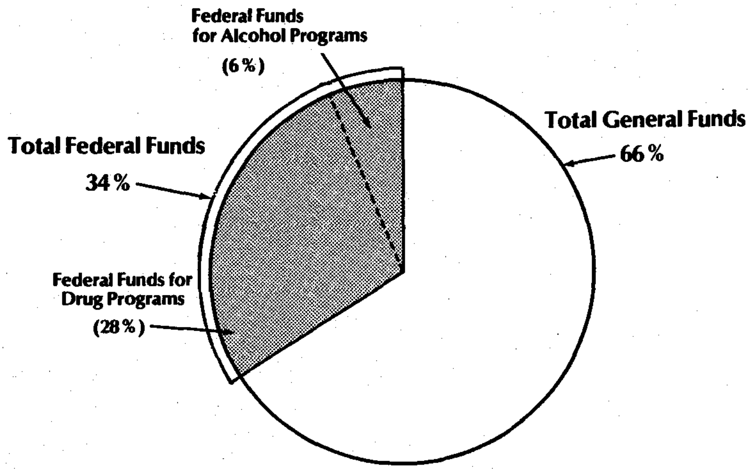
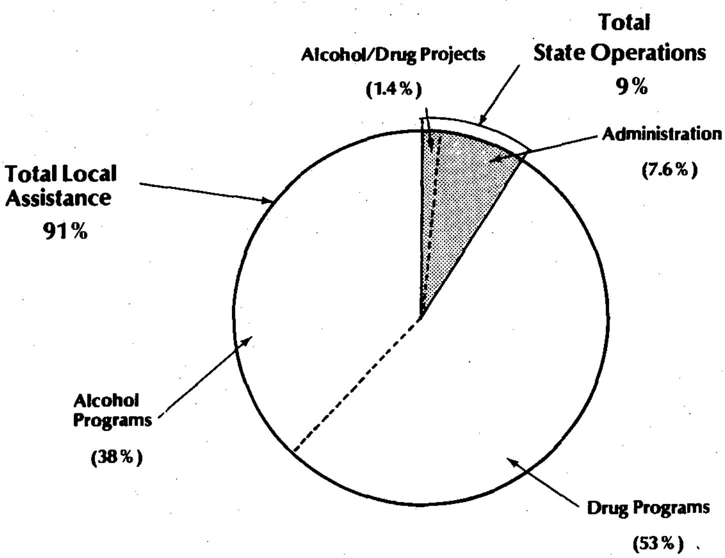


Chart 3
Department of Alcohol and Drug Programs Expenditures

Local Assistance and State Operations
1980–81



Acupuncture Demonstration Project for Drug Abusers

We recommend deletion of the proposed acupuncture demonstration project which would duplicate existing federal efforts, for a General Fund savings of $140,000.

The Department proposes to fund a two-year demonstration project ($140,000 each year, for a total of $280,000) to test whether acupuncture helps opiate addicts and polydrug abusers withdraw from their addiction or heavy use. Acupuncture is a Chinese medical treatment technique involving the use of needles to "puncture" various parts of the body in order to cure disease or relieve pain. In this case, the acupuncturist will try to relieve the symptoms of withdrawal from drug use. The project proposes to test the following hypothesis: Relief from discomfort of withdrawal encourages addicts to abandon their abuse of drugs.

Existing demonstration project. The National Institute on Drug Abuse (NIDA) recently awarded $251,779 to Youth Projects Inc. to test the effectiveness of Chinese medicine in treating the drug abusers who use San Francisco's Haight Ashbury Free Medical Clinic. The project will be conducted over an 18-month period (beginning September 1979).

Duplication of Effort. Our analysis indicates that the department's demonstration proposal duplicates existing federal efforts. A comparison of the research design for the San Francisco project funded by NIDA and the department's proposal indicates that the two projects are designed to test the same hypothesis.

California taxpayers already are supporting one acupuncture demonstration project through their federal tax dollars. If the department's proposal is funded, taxpayers would have to pay twice to test the same hypothesis. We therefore recommend deletion of the proposed project, for a General Fund savings of $140,000.

Alcohol Research Center

We recommend that the administrative authority for state-funded alcohol research be transferred from the Department of Alcohol and Drug Programs to the University of California, and further recommend that $500,000 be transferred to Item 360 for that purpose.

Background. Chapter 925, Statutes of 1975, authorized the former Office of Alcoholism to establish an alcohol research center (ARC) in a California university. Through a request for proposal (RFP) process, the department established an alcohol research center at the University of California, Los Angeles (UCLA), in September 1977.

Chapter 925 did not specify how long the alcohol research center is to be funded. The RFP indicated, however, that funding would be maintained for five years at an annual level of $500,000, subject to annual renewal through the budget process. The RFP also indicated that the center would be evaluated after five years.

The Budget Act of 1976, Item 280(g), contained an appropriation of $1 million from the General Fund (available without regard to fiscal year)

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

to support an alcohol research center. In the current year, the department will spend the $393,433 remaining from that appropriation and provide an additional $80,132 from its support budget, for a total estimated expenditure by the ARC of $473,565. The 1980–81 budget proposes an ARC expenditure of $500,000. This consists of (a) an additional $419,868 from the General Fund and (b) $80,132 of existing General Fund support included in the department's base budget.

Funding for Alcohol Research in California. The National Institute on Alcohol Abuse and Alcoholism (NIAAA) currently funds nine national alcohol research centers. Of the nine, four are located in California. Of those four, three are located on University of California campuses. The state-funded alcohol research center at UCLA is one of these three. The other two are not receiving support from the department. Table 2 shows the federal funding levels for the four California-based alcohol research centers during the current federal fiscal year.

Table 2

National Alcohol Research Centers in California
Federal Funding for Federal Fiscal Year 1980

Location	*Federal Funding*
University of California, Berkeley	$661,941
University of California, Irvine	650,305
University of California, Los Angeles	509,604
Salk Institute, San Diego	853,312
Total	$2,675,162

Source: National Institute on Alcohol Abuse and Alcoholism

The alcohol research center at UCLA will receive approximately $675,935 from the University of California, in addition to the $509,604 from NIAAA and the $473,565 from DADP. The university funds are in-kind contributions in the form of salaries for researchers who are also appointed faculty members and operating expenses associated with each research project. The ARC also has a $47,500 grant from a private foundation during the current year. Thus, UCLA's total current-year budget for alcohol research is approximately $1,706,604. This information is summarized in Table 3.

Table 3

Alcohol Research Center
University of California at Los Angeles
1979–80 Funding Sources

Department of Alcohol and Drug Programs	$473,565 [a]
National Institute on Alcohol Abuse and Alcoholism	509,604 [b]
University of California	675,935 [a]
Anheuser-Busch Foundation	47,500
Total	$1,706,604

[a] State fiscal year (July 1, 1979–June 30, 1980)
[b] Federal fiscal year (October 1, 1979–September 30, 1980)

State funding for alcohol research at UCLA already has enabled the ARC to attract funds from other sources, as Table 3 shows. In fact, some of the same research projects the UCLA/ARC is conducting in compliance with its DADP contract are supported by federal and UC funds as well. In an attempt to stabilize its annual funding level, the UCLA/ARC in effect has used its annual allocation from the department as "seed money" to help the center draw in funds from stable sources which more typically fund long-range research.

Problems in the Funding Relationship. In the Supplemental Report of the 1979 Budget Act, the Legislature stipulated that requests for funding for the alcohol research center in fiscal year 1980–81 should be accompanied by (1) a priority listing of the state's needs in alcohol research, (2) an evaluation design for the project, and (3) proposals and budgets for individual projects.

The department has provided the information requested by the Legislature. Also, in August 1979, a peer review panel composed of three professional alcohol researchers completed its report on the alcohol research center at UCLA. The purpose of that review was to evaluate the quality of UCLA's research according to scientific standards. The department provided a copy of the peer review panel's report as well as a number of related documents assessing the peer review. Our analysis of these materials indicates several problems in the existing funding relationship between DADP and UCLA.

First, DADP and UCLA have incompatible objectives in completing the commissioned alcohol research. DADP seeks to improve local program effectiveness, while UCLA seeks to generate new knowledge regarding alcohol use.

Second, our review of several recently prepared documents indicates that communication problems in the existing funding relationship have jeopardized the completion of specific research projects, in spite of contractual agreements.

Third, DADP's strict contract compliance approach to monitoring the performance of the alcohol research center has proven to be too restrictive. While such an approach is appropriate to the extent that it permits the department to account for its funds, it is not reliable as a method for evaluating the quality of basic research.

Based on our review, we conclude that the Legislature's stated intent to authorize alcohol research of high quality cannot be met by the existing contractual relationship. The reputation of the University of California as a highly respected research institution suggests that the university has developed satisfactory rules for the administration of research funds. We therefore recommend that administrative authority for state-funded alcohol research be transferred from the Department of Alcohol and Drug Programs to the University of California, and that the $500,000 in Item 280 be transferred to Item 360, the support item for the University of California.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Assumption of Programs Funded Directly by NIDA

We withhold recommendation on state assumption of the programs currently funded directly by the National Institute on Drug Abuse, pending receipt of information which details the portion of the statewide nonfederal match for drug programs that currently is from the General Fund.

Background. The National Institute on Drug Abuse (NIDA) directly funds 22 local providers of drug program services in California. In all other states, NIDA has discontinued direct funding of local programs and has asked the state agency to assume the "NIDA-directs" into its statewide services grant. State assumption of the grants entails an increased administrative and monitoring workload.

The Department of Alcohol and Drug Programs is proposing to assume administrative responsibility for the funding of the 22 NIDA-directs beginning January 1, 1981. As a result, the budget proposes an increased expenditure of $9,610,943 in federal funds for local assistance during 1980–81, which amounts to 12 months of grant funding. Because of notification delays for federal grant awards, the department recently revised its drug program contract period to coincide with the calendar year rather than with the federal fiscal year. (The Legislature was notified of this change in a letter dated December 4, 1979, submitted pursuant to Section 28 of the 1979 Budget Act.) Thus, DADP is requesting legislative authorization for 12 months of grant funding because it will obligate funds as of January 1, 1981, and authorize the 22 NIDA-directs to spend the money over a 12 month calendar year.

The department proposes 12 new positions, at a total cost of $159,203 in the budget year, to meet the demands of this increased administrative and monitoring workload for six months (January 1–June 30, 1981). NIDA proposes to pay 60 percent of these increased state costs, leaving $63,681, or 40 percent, to be supported from the General Fund. (The department advises that full-year state costs for the positions are expected to increase to $161,084 in 1981–82.)

Nonfederal Match. The current year funding level for the 22 NIDA-directs is $15,951,685. Of this amount, the nonfederal match is $6,340,742, or 39.75 percent. The sources of the NIDA-directs' nonfederal match vary from program to program, as is the case with programs already included in DADP's statewide services grant. Sources include Short-Doyle, United Way, local tax revenues, client fees, third-party payments, and in-kind contributions. The locations and funding levels of the NIDA-directs during the current federal fiscal year are summarized in Table 4. DADP already has some administrative or monitoring responsibility in 15 of the 22 NIDA-directs, as Table 4 indicates.

Table 4
National Institute on Drug Abuse
Directly Funded Programs in California
1980 Federal Fiscal Year
(October 1, 1979 to September 30, 1980)

Project and Location	*Total Program Cost*	*Federal Share*	*Local Match*
1. The Aquarian Effort, Inc. [a]	$789,022	$473,413	$315,609
Sacramento		(60%)	(40%)
2. Asian American Drug Abuse Program [a]	573,790	344,274	229,516
Los Angeles		(60%)	(40%)
3. Avalon-Carver Community Services	179,400	121,274	58,126
Los Angeles		(67.6%)	(32.4%)
4. Bridge Back, Inc. [a]	408,750	245,250	163,500
Los Angeles		(60%)	(40%)
5. Central City Community Mental Health Facility [a]	1,593,420	956,052	637,368
Los Angeles		(60%)	(40%)
6. City of Long Beach Department of Public Health	716,644	429,986	286,658
Long Beach		(60%)	(40%)
7. Drug Abuse Services [b]	327,860	196,716	131,144
Ventura		(60%)	(40%)
8. El Proyecto Del Barrio	429,607	262,490	167,117
Pacoima		(61.1%)	(38.9)
9. Marin Treatment Center [b]	459,800	275,880	183,920
San Rafael		(60%)	(40%)
10. Monterey Peninsula Youth Project [a]	530,340	322,447	207,893
Monterey		(60.8%)	(39.2%)
11. Narcotic Prevention Project [a,c]	768,324	464,990	303,334
Los Angeles		(60.52%)	(39.48%)
12. Orange County Department of Mental Health [b]	804,900	482,940	321,960
Santa Ana		(60%)	(40%)
13. People Coordinated Services	635,950	381,570	254,380
Los Angeles		(60%)	(40%)
14. San Bernardino County Department of Mental Health [c]	779,350	467,610	311,740
San Bernardino		(60%)	(40%)
15. San Diego County Department of Substance Abuse	431,200	258,720	172,480
San Diego		(60%)	(40%)
16. San Franciso Department of Public Health [b]	2,031,530	1,218,918	812,612
San Francisco		(60%)	(40%)
17. Santa Clara County Department of Health [b,c]	671,240	402,744	268,496
San Jose		(60%)	(40%)
18. Santa Cruz Community Counseling Center [a]	388,420	255,430	133,000
Santa Cruz		(65.76%)	(34.24%)
19. Stanislaus County Department of Mental Health [b]	388,140	223,840	164,290
Modesto		(57.67%)	(42.33%)
20. Watts Health Foundation, Inc.	1,185,450	711,270	474,180
Los Angeles		(60%)	(40%)
21. Westside Community Mental Health Center [b]	1,154,328	692,597	461,731
San Francisco		(60%)	(40%)
22. Youth Projects, Inc.	704,220	422,532	281,688
San Francisco		(60%)	(40%)
Totals	$15,951,685	$9,610,943	$6,340,742
		(60.25%)	(39.75%)

Source: Department of Alcohol and Drug Programs.

[a] Currently receives a portion of total funding from Short Doyle (05), which is administered and monitored by DADP.

[b] Program includes methadone maintenance component, requiring periodic site monitoring by DADP.

[c] Currently receives a portion of total funding out of DADP's statewide services grant from NIDA.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

The funding levels in Table 4 are misleading because NIDA's estimate of the "total program cost" understates the actual cost of providing the authorized level of service.

The providers estimate, for example, that the minimum actual cost of residential treatment per client per year is $10,000. NIDA's maximum reimbursement for residential treatment costs, however, is $3,402. As a result, the programs need to mobilize $6,598 in local resources, or 66 percent of costs, to meet the minimum residential treatment cost of $10,000. Thus, the service providers must raise substantially more nonfederal money than the amounts shown in Table 4 in order to meet the actual costs of providing the services.

We are advised by one of the NIDA-direct programs that it is unable to spend at its authorized level of service, because it has not been able to provide the nonfederal match required to obtain its full allocation from NIDA. Once this program's operations become the department's responsibility, it would be reasonable for DADP to try to obtain the maximum allowable federal support, as required by Control Section 8.5 of the Budget Act, possibly by increasing that program's state funding.

The department advises that the only long-range state costs that will result from its assuming administrative responsibility for the NIDA-directs will be the state's share of increased administrative and monitoring costs. Our analysis indicates, however, that the long-range General Fund impact of assuming responsibility for the grants may be larger than the department acknowledges because of the extent to which the programs are underfunded by the federal government. General Fund monies are currently used as nonfederal match in order to secure the existing annual allocation of federal funds. To the extent that General Fund participation must increase in order to stabilize federal funding for the NIDA-directs in California, increased state costs will result from DADP's assuming administrative responsibility for the NIDA-directs.

We asked the department to identify what portion of the nonfederal match requirement the NIDA-directs currently meet with Short-Doyle funds. DADP was unable to provide this information. We asked for the same information with respect to the drug programs already under contract with the department. DADP also was unable to provide this information. The department's inability to specify the relationship between these two funding sources precludes our being able to determine the impact on the General Fund which would result from DADP's assuming administrative responsibility for the 22 NIDA-directs.

Accordingly, we withhold recommendation on state assumption of the programs currently funded directly by the National Institute on Drug Abuse, pending receipt of information which details the portion of the statewide nonfederal match for drug programs that currently is paid from the General Fund.

Health and Welfare Agency

GOVERNOR'S ADVISORY COMMITTEE ON CHILD DEVELOPMENT PROGRAMS

Item 283 from the General Fund — Budget p. HW 24

Requested 1980–81	$105,972
Estimated 1979–80	90,596
Actual 1978–79	74,991
Requested increase (excluding amount for salary increases) $15,376 (+17 percent)	
Total recommended reduction	$20,273

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Committee Staff. Reduce by $20,273.* Recommend deletion of a proposed half-time committee staff position. 684

GENERAL PROGRAM STATEMENT

The Governor's Advisory Committee on Child Development Programs (GACCDP) is responsible for advising the Governor and the Superintendent of Public Instruction on issues related to child care and development and reporting annually to the Legislature on these matters. The advisory committee consists of 25 members including three new members added pursuant to Chapter 251, Statutes of 1979 (AB 460). The committee was staffed with an executive secretary and clerical support for the first time in the 1977–78 budget year.

Special Report on Child Development Services

Item 256.1 of the 1979 Budget Act appropriated $10,000 and directed the Governor's Advisory Committee on Child Development Programs to conduct an evaluation study of (a) current systems of assessing needs for child development services, (b) present methods for allocating public funds which support child development services, and (c) the feasibility of using local or regional organizations to assess local child development needs and funding priorities. The committee formed a special task force to conduct this study and anticipates submitting recommendations to the Legislature by February 1, 1980.

ANALYSIS AND RECOMMENDATIONS

The Governor's Budget proposes a General Fund appropriation of $105,972 for the operation of the Governor's Advisory Committee on Child Development Programs in 1980–81, which is an increase of $15,376, or 17 percent over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The $15,376 increase results from (1) the proposed addition of $20,273 to support a new limited-term half-time position, (2) an increase of $6,993 in operating expenses and equipment, (3) a decrease in personal services of $1,890 due to the elimination of a one-year temporary help blanket, and (4) a decrease of $10,000 in one-time funds authorized for the current year by Item 256.1 of the 1979 Budget Act.

New Staff Not Needed

We recommend deletion of a proposed half-time position proposed to provide committee staff support, for a General Fund savings of $20,273.

The Governor's Advisory Committee is requesting a half-time associate governmental program analyst, limited to June 30, 1981, to accomplish the committee's objectives in a more efficient, reliable manner. The GACCDP advises that the addition of three members to the 22-member committee as a result of Chapter 251, Statutes of 1979, will result in increased subcommittee staff work that can be accomplished only with increased staff.

Our analysis cannot support the need for this new limited-term position.

First, the Office of Child Development in the Special Programs and Support Services Division of the Department of Education has a staff of 11 professional positions that could perform analytical studies and prepare statistical reports upon the request of the committee. Section 8450 of the Education Code authorizes the committee to make recommendations to the Governor, the Department of Education, and other agencies with regard to program development and expansion. This authorization enables the committee to recommend areas where special analysis is necessary, but does not require that the committee have the capacity to perform these analyses itself.

Second, with the completion of the special report on the allocation of public funds for child development services, authorized by Item 256.1 of the 1979 Budget Act, the workload of committee staff should diminish in 1980–81.

Third, five of the appointed members of the committee are employed by state agencies that administer programs for children and youth. We believe that these representatives could arrange for staff support services as specific problems arise.

Because of these alternative sources of staff support and workload factors the addition of new staff is not justified at this time. Moreover, the committee proposes to increase its budget for contractual services from $2,034 in 1979–80 to $4,268 in 1980–81, an increase of 110 percent. (The Governor's Budget shows contractual services totaling $11,034 in the current year because of the onetime addition of $9,000 for the report on child development services. Ongoing contractual services in 1979–80 total $2,034.) Our analysis indicates that this increase in contractual services should afford the committee sufficient flexibility to meet unanticipated staffing requirements without the addition of a new half-time position.

Therefore, we recommend that the proposed budget for the Governor's Advisory Committee on Child Development Programs be reduced by $13,062 in personal services and $7,211 in operating expenses and equipment for a total General Fund savings of $20,273.

Health and Welfare Agency

DEPARTMENT OF HEALTH SERVICES

Items 284 and 287–294 from the General Fund and Item 285 from the State Transportation Fund, and Item 286 from federal funds — Budget p. HW 31

Requested 1980–81	$2,808,577,312
Estimated 1979–80	2,497,136,975
Actual 1978–79	2,025,795,677
Requested increase (excluding amount for salary increases) $311,440,337 (+12.5 percent)	
Total recommended reduction	$9,764,859

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
284	Departmental Support	General	$79,289,242
285	Forensic Alcohol Analysis	State Transportation	338,864
286	Special Projects	Federal	(89,052,995)
287	Medi-Cal Health Care Benefits	General	2,141,329,850
288	Medi-Cal County Eligibility Determinations	General	96,297,122
289	Medi-Cal Fiscal Intermediary Contracts	General	15,309,700
290	Child Health Disability Prevention Program	General	8,184,574
291	Provider Rate Increases	General	80,386,399
292	Local Assistance for Health Services	General	44,463,484
293	California Children's Services	General	33,662,733
294	Legislative Mandates	General	180,000
	Amount payable from other appropriations	General	310,551,365
	Repayment from Genetic Disease Testing Fund	General	−1,416,021
	Total		$2,808,577,312

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Salary Increases. Reduce Item 284 by $217,721.* Recommend reduction of the Public and Environmental Health Division support budget to remove inappropriately budgeted salary increases. 694
2. *Preventive Medicine Residency. Reduce Item 284 by $77,066.* Recommend reduction of amount inappropriately budgeted for preventive medicine resident positions. 695
3. *Contract Counties. Reduce Item 292(l) by $435,062.* Recommend deletion of contract county technical assistance program. 696
4. *Health Risk Reduction. Reduce Item 292b by $505,985.* Recommend deletion of the proposed risk reduction program. 697

5. County Health Trends. Recommend adoption of supplemental report language which requests the department to report on county health services trends (Item 284). 700
6. *Abandoned Waste Dump Search. Reduce Item 284 by $201,305.* Recommend deletion of seven proposed positions for the abandoned waste dump search. 702
7. *Environmental Epidemiology. Reduce Item 284 by $316,082.* Recommend deletion of seven proposed positions for the environmental epidemiology proposal. 703
8. *Flu Vaccine. Reduce Item 292f by $383,024.* Recommend reduction of flu vaccine funds due to the availability of federal funds for this purpose. 703
9. *Radioactive Materials. Reduce Item 284 by $9,343.* Recommend deletion of amount budgeted for overhead in the environmental monitoring proposal. 705
10. Infant Medical Dispatch. Recommend deletion of 2.2 positions and $70,627 in federal funds proposed for the Infant Medical Dispatch program (Item 284). 706
11. *Sickle Cell. Reduce Item 284 by $15,123.* Recommend deletion of 0.5 positions for implementation of the sickle cell regulations. 707
12. *Licensing Contract. Reduce Item 284 by $217,442.* Recommend reduction of $217,442 from the General Fund and $245,200 in federal funds requested to augment the Los Angeles County licensing contract. 711
13. *Indian Health. Reduce Item 284 by $68,308.* Recommend deletion of two positions for the Indian Health program. 713
14. *Rural Hospitals. Reduce Item 284 by $27,000.* Recommend reduction of proposed contract funds in the rural hospitals program. 714
15. *Overhead Recoveries. Reduce Item 284 by $200,385.* 716
Recommend increase of $400,769 in reimbursements, deletion of $200,385 from the General Fund, and deletion of $200,384 from federal and other special funds to correct for underestimation of departmental overhead recoveries from Special Projects.
16. Medi-Cal Funding. Withhold recommendation on proposed appropriation for cost of health care services in Item 287, pending receipt of the May Revision. 724
17. Range Estimates. Recommend the Department of Finance issue a range estimate for Medi-Cal health care costs when submitting the May Revision. 724
18. Notification. Recommend Budget Act Language requiring notification of the Legislature when proposed regulations or state plan amendments cost $500,000 or more from the General Fund. 724

19. Eligibility Determination Costs. Withhold recommendation on proposed appropriation for county administration of Medi-Cal eligibility determination in Item 288 pending receipt of the May Revision. 725
20. *Los Angeles County Hospitals. Reduce Item 288 by $1,654,537.* Recommend reduction of $1,654,537 from the General Fund and $798,083 in federal funds proposed for Medi-Cal eligibility determinations in Los Angeles County Hospitals. 730
21. *Special County Projects. Reduce Item 288 by $1,725,149.* Recommend funds for three special projects be deleted due to lack of justification, for a reduction of $1,725,149 from the General Fund and $1,137,725 from federal funds. 730
22. Fiscal Intermediary Services. Withhold recommendation on proposed appropriations for the cost of processing provider claims in Item 289 pending receipt of the May Revision. 731
23. Prior Authorization. Recommend the Departments of Health Services and Finance jointly review areas of deficiency in the current system of prior authorization of services. 748
24. *PSRO Contract Funds. Reduce Item 284 by $1,159,695.* Recommend reduction in contract funds not required for operation of existing professional standard review organizations. 748
25. *Transferred Positions. Reduce Item 284 by $244,290.* Recommend deletion of 30 positions proposed for transfer, for a reduction of $244,290 from the General Fund and reduction of $530,371 in federal funds. 749
26. *Investigations Section. Reduce Item 284 by $70,716.* Recommend deletion of six proposed positions, for a reduction of $70,716 from the General Fund and a reduction of $57,858 in federal funds. 751
27. *MEDS Project. Reduce Item 284(b) by $614,679.* Recommend deletion of funds for purchase and rental of equipment, for a reduction of $614,679 from the General Fund and a reduction of $1,276,641 from federal funds. 753
28. *Salary Savings. Reduce Item 284 by $1,281,597.* Recommend an 8 percent salary savings requirement, for a reduction of $1,281,597 from the General Fund and a reduction of $1,198,754 from federal funds. 755
29. *Operating Expenses. Reduce Item 284 by $340,350.* Recommend operating expenses be reduced by $340,350 from the General Fund and $381,351 in federal funds. 756

DEPARTMENT OF HEALTH SERVICES—Continued

DEPARTMENT OF HEALTH SERVICES TABLE OF CONTENTS

GENERAL PROGRAM STATEMENT

The Department of Health Services has responsibilities in two major areas. First, it provides access to health care for California's welfare, medically needy, and medically indigent populations through the Medi-Cal program. Second, the department administers a broad range of public health programs including (a) state operated programs such as licensure of health facilities and certain types of technical personnel and (b) programs which complement and support the activities of local health agencies in controlling environmental hazards, preventing and controlling disease, and providing health services to populations which have special needs.

The department is divided into the following six major units.

1. Preventive Health Services

The Office of Local Public Health Assistance provides technical assistance in funding matters to local health departments. It also administers state and federal subvention programs which provide funds for support of local public health activities.

The Public and Environmental Health Division is responsible for (a) safeguarding the quality of water, food, and drugs, (b) controlling environmental hazards to human health such as radiation and toxic wastes, (c) preventing and controlling infectious and chronic disease, and (d) maintaining statistics on births, deaths, and other events.

The Community Health Services Division addressses the special needs of women and children through programs in Family Planning, Maternal and Child Health, and California Children Services Branches.

The Licensing and Certification Division licenses hospitals, nursing homes, clinics, and other health facilities.

The Rural Health Division is responsible for improving the quantity and quality of health services available to underserved rural and Indian populations through (a) the contract counties program under which public health services are provided directly in sixteen rural counties and (b) support of primary health services projects serving rural and Indian populations.

2. Medical Care Services

The Medi-Cal Division is responsible for (a) Medi-Cal prior authorization activities, (b) recovery of Medi-Cal funds, in cases involving fraud or abuse, (c) pilot projects and (d) transition to the new fiscal intermediary.

The Medi-Cal Services Division is responsible for (a) Medi-Cal eligibility and benefit matters, (b) the Medi-Cal fee system, (c) monitoring prepaid health plans and (d) the Child Health and Disability Prevention Program.

3. Audits and Investigations Division

The division is responsible for (a) Medi-Cal hospital and nursing home audits, (b) anti-fraud investigations, (c) quality control studies and medical reviews to identify poor quality care and (d) billing abuses.

4. Policy Planning and Enforcement and Director's Office

These units perform functions such as legal services, public information, legislative liaison, and planning and evaluation. The Center for Health Statistics maintains data on health status and needs of the state. The newly created Office of County Health Services distributes funds provided under AB 8 to local health agencies.

5. Administration Division

The division performs administrative and support functions such as data processing, reproduction, purchasing, building management, personnel, training, budgeting, accounting, and forecasting.

6. Special Projects

The majority of special projects are studies or other activities which are 100 percent federally funded. The funds and related staff are administered primarily through the Public and Environmental Health Division but are identified separately in the budget.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $4,860,454,941 for support of Department of Health Services from all funds in 1980–81, which is an increase of $620,918,699, or 14.6 percent, above estimated current year expenditures. It proposes the expenditure of $2,808,238,448, from the General Fund in 1980–81, which is an increase of $311,424,147, or 12.5 percent,

DEPARTMENT OF HEALTH SERVICES—Continued

above estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budget includes 4,241.6 positions including special projects, an increase of 410.8, or 10.7 percent, above the number of authorized positions in the current year. Table 1 provides the number of positions by major organizational unit.

Table 1
Department of Health Services Positions

	Actual 1978–79	*Estimated 1979–80*	*Proposed 1980–81*	*Change from 1979–80* Number	Percent
Preventive Health Services	1,377.0	1,421.7	1,518.5	96.8	6.9%
Medical Care Services	720.3	850.3	901.9	51.6	6.1
Audits and Investigations	318.7	352.4	394.7	42.3	12.0
Administration and Director's Office	673.3	733.0	769.6	36.6	5.0
Special Projects	288.5	473.4	656.9	183.5	38.8
Totals	3,377.8	3,830.8	4,241.6	410.8	10.7%

Proposed increases in expenditures (all funds) over the estimated current year expenditures for three major program categories are:

- Support: $44,706,202 (22.4 percent)
- Public health local assistance: $50,928,068 (13.9 percent)
- Medi-Cal local assistance: $525,284,429 (14.3 percent)

Table 2 shows the proposed budget by major program category.

Table 2
Department of Health Services
Support and Local Assistance Budget
(All Funds)

	Actual 1978–79	*Estimated 1979–80*	*Proposed 1980–81*	*Percent Change from 1979–80*
Support Budget				
Preventive Health Services	NA	$56,810,266	$67,879,533	19.5%
Medical Care Services	NA	32,389,640	36,312,991	12.1
Audits and Investigations	NA	11,838,782	13,354,697	12.8
Administration and Director's Office	NA	30,241,241	34,307,539	13.4
Subtotals	$103,885,105	$131,279,929	$151,854,760	15.7%
Special Projects	42,546,806	68,554,957	92,686,333	35.2
Totals	$146,431,911	$199,834,886	$244,541,093	22.4%
Public Health Local Assistance				
Preventive Health Services	$99,132,564	$99,324,628	111,126,684	11.9%
County Health Services	—	267,000,000	306,115,500	14.7
Legislative Mandates	169,478	169,488	180,000	6.2
Subtotals	$99,302,042	$366,494,116	$417,422,184	13.9%
Medi-Cal Program Local Assistance				
Health Care Benefits	$3,107,054,369	$3,458,004,756	$3,847,597,616	11.3%
Fiscal Intermediary Contracts	56,695,993	70,273,700	50,361,300	−28.3
County Eligibility Determinations	119,213,980	130,128,045	142,741,551	9.7
Child Health Disability Prevention	12,037,500	14,800,739	16,207,697	9.5
Provider Rate Increases	—	—	141,583,500	NA
Subtotals	$3,295,001,842	$3,673,207,240	$4,198,491,664	14.3%
Totals	$3,540,735,795	$4,239,536,242	$4,860,454,941	14.6%

I. PUBLIC HEALTH PROGRAMS

A. SUMMARY

In general, public health programs are administered by the Chief Deputy Director, Preventive Health Services. However, the Office of County Health Services, which monitors county services and distributes local assistance funds provided under AB 8, is under the direction of the Chief Deputy Director, Policy Planning and Enforcement. Table 3 displays the proposed 1980–81 positions and operating budget for each public health program.

Table 3
Department of Health Services
1980–81 Public Health Programs Positions, and Operating Budget
Excluding Administrative Overhead

	Positions[a]	*Operating Budget All Funds*
Office of Local Public Health Assistance	10.0	$341,594
Public and Environmental Health Division	(1,036.2)	(43,179,696)
Division Office	8.0	388,781
Environmental Health Branch	367.7	13,424,136
Laboratory Services Branch	381.3	18,525,517
Preventive Medical Services Branch	181.3	8,183,538
Vital Statistics Branch	97.9	2,657,724
Community Health Services Division	(200.3)	(7,022,570)
Division Office	6.5	216,131
Family Planning Branch	37.5	950,906
Maternal and Child Health Branch	86.8	3,891,261
California Children Services Branch	69.5	1,964,272
Licensing and Certification Division	250.3	13,131,388
Rural Health Division	111.5	4,204,285
Subtotals, Preventive Health Services	1,608.3	$67,879,533
Office of County Health Services	21.0	675,741
Special Projects	656.9	92,686,333
Totals	2,286.2	$161,241,607

[a] Position counts do not reflect salary savings.

Table 4 on page 692 provides data on local assistance funding administered by each departmental unit.

Budget Changes. The budget proposes funds for significant new workload in toxic chemical waste regulation and farmworker health programs. The budget also reflects major 1979 legislation in the areas of county health services (AB 8) and services for high risk pregnant women and infants. Due to the substantial fiscal support provided to county health agencies under AB 8, the budget proposes a reduction of $3.4 million in the unrestricted funds provided under existing state and federal public health subvention programs.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 4
Department of Health Services
Public Health Programs Local Assistance
(in thousands)

	Budget Bill Item	1979–80 Estimated General Fund	1979–80 Estimated Total Funds	1980–81 Proposed General Fund	1980–81 Proposed Total Funds	Percent Change General Fund	Percent Change Total Funds
Office of Local Health Assistance							
State Formula Funds	292b	$6,026.3	$6,026.3	$705.0	$705.0	–88.3%	–88.3%
314(d) Formula Funds	292b	—	3,097.8 [b]	—	5,081.5 [b]	—	64.0
Preventive Medical Services Branch							
Tuberculosis Control	292a	364.9	364.9	397.8	397.8	9.0	9.0
Public Health Nursing Services to the Aged	292b	704.2	704.2	1,196.5	1,196.5	69.9	69.9
Emergency Medical Care Delivery Systems	NA	62.5 [a]	62.5 [a]	—	—	–100.0	–100.0
Renal Dialysis	292e	717.0	717.0	781.5	781.5	9.0	9.0
Immunization Assistance	292e	1,186.5	1,186.5	1,343.3 [a]	1,343.3 [a]	13.2	13.2
Dental Prevention	292d	—	—	1,800.0 [a]	1,800.0 [a]	NA	NA
Risk Reduction	292b	—	—	506.0	506.0	NA	NA
Family Planning Branch							
Family Planning	291,292h	25,832.5	29,832.5 [b]	28,165.6	32,165.6 [b]	9.0	7.8
Maternal and Child Health Branch							
Genetic Disease Prevention							
Huntington's Disease Research	NA	180.0 [a]	180.0 [a]	—	—	–100.0	–100.0
Sickle Cell Anemia	292f	435.4	435.4	474.6	474.6	9.0	9.0
Amniocentesis	292f	530.0	530.0	577.7	577.7	9.0	9.0
Genetic Counseling	NA	52.6	52.6	—	—	–100.0	–100.0
Tay-Sachs Disease	292g	393.3	393.3	428.7	428.7	9.0	9.0
Maternal and Child Health	292i	—	9,796.2 [b]	—	9,362.2 [b]	—	–4.4
Perinatal Health Care							
Perinatal Access	292j	186.1 [a]	186.1 [a]	742.5 [a]	742.5 [a]	299.0	299.0
Infant Dispatch	292j	188.0 [a]	188.0 [a]	204.9	204.9	9.0	9.0
Oakland Perinatal Project	292b	795.0	2,536.2 [b, c]	617.3	929.0 [b]	–22.4	–63.4
Primary Care Clinics	292b	—	—	900.0 [a]	900.0 [a]	NA	NA
California Children Services Branch							
Genetically Handicapped Persons	291,292e	3,663.1 [a]	3,663.1 [a]	4,670.1	4,670.1	27.5	27.5
California Children Services	291,293	28,400.3	34,070.0 [b, c]	34,936.9	41,507.5 [b, c]	23.0	21.8
Rural Health Division							
Indian Health	292k	2,445.1	2,445.1	2,665.1	2,665.1	9.0	9.0
Rural Health	292l	2,856.8 [a]	2,856.8 [a]	2,938.0	2,938.0	2.8	2.8
Technical Assistance	292l	—	—	435.1	435.1	NA	NA
Farmworker Health	292m	—	—	914.2	914.2	NA	NA
Primary Care Clinics	292b	—	—	400.0 [a]	400.0 [a]	NA	NA
Subtotals, Preventive Health Services		$75,019.7	$99,324.6	$85,800.7	$111,126.7	14.4%	11.9%
Office of County Health Services							
Local Government Relief (AB 8)	NA	267,000.0 [a]	267,000.0 [a]	306,115.5 [a]	306,115.5 [a]	14.7	14.7
Legislative Mandates	294	169.5	169.5	180.0	180.0	6.2	6.2
Totals		$342,189.2	$366,494.1	$392,096.2	$417,422.2	14.6%	13.9%

[a] Includes chaptered funds or special funds.
[b] Includes federal funds.
[c] Includes family repayments or reimbursements.

The department's 30 budget change proposals in public health program areas include requests for additional staff in the radiation safety, family planning, maternal and child health, rural health, and facilities licensing programs. Additional funding is included for the state's contract with Los Angeles County for facilities licensing.

B. LOCAL PUBLIC HEALTH ASSISTANCE

The Office of Local Public Health Assistance distributes state and federal funds to 42 county health departments (this excludes the 16 rural counties which receive state assistance through the contract counties program in the Rural Health Division).

The Health and Safety Code provides that each county shall receive a minimum state subvention of $16,000, or 60 cents per capita, whichever is less. The budget estimates the counties will receive $6,026,312 from the General Fund during the current year. The proposed 1980–81 budget includes $646,790 from the General Fund, the minimum mandated amount.

The federal public health subvention to the state of $5,798,293 in the current year is provided under Section 314(d) of the Public Health Service Act. During the current year $3,097,776 of the federal funds are budgeted for distribution to counties on a population basis and $2,700,517 are budgeted to partially offset the costs of certain positions in the Public and Environmental Health Division. General Fund support of these positions is budgeted to be $813,279 in the current year.

The amount of federal funding allocated to California is projected to decrease from $5,798,293 in the current year to $5,081,500 in 1980–81. At the same time, the need for financial aid under the state-funded local assistance program has diminished as a result of the passage of AB 8, which provides approximately $300 million annually to local health departments. Because of these factors, the budget proposes major changes in the utilization of the state and federal funds.

Under the proposed budget: (1) local agencies would receive the entire amount of federal funds ($5,081,500) and the minimal allocation under the state program ($646,790) for a total of $5,728,290 in unrestricted funds, a reduction of $3,395,798 from the budgeted current year level; (2) the department would receive $3,786,977 for departmental operations, an increase of $273,181, and (3) $1,695,771 would be used to initiate a series of projects directed specifically to local health department needs. The effects of the proposal are summarized in Table 5.

Table 5
Public Health Subvention Funds

	Estimated 1979–80	*Proposed 1980–81*	*Change* Amount	Percent
Subventions to Local Health Departments	$9,124,088	$5,728,290	$−3,395,798	$−37.2%
Federal funds	(3,097,776)	(5,081,500)	(1,983,724)	(64.0)
General Fund	(6,026,312)	(646,790)	(−5,379,522)	(−89.3)
State Operations	3,513,796	3,786,977	273,181	7.8
Federal funds	(2,700,517)	(—)	(−2,700,517)	(−100.0)
General Fund	(813,279)	(3,786,977)	(2,973,698)	(365.6)
Local Projects	—	1,695,771	1,695,771	NA
General Fund	—	(1,695,771)	(1,695,771)	NA
Totals	$12,637,884	$11,211,038	$−1,426,846	−11.3%
Federal funds	(5,798,293)	(5,081,500)	(−716,793)	(−12.4)
General Fund	(6,839,591)	(6,129,538)	(−710,053)	(−10.4)

DEPARTMENT OF HEALTH SERVICES—Continued

Reduction of Support to Local Agencies

We recommend approval.

The funds proposed for allocation to local health departments consist of the full amount of federal funds ($5,081,500) provided for this purpose, plus the minimum amount of state funds required by statute ($646,790). As a result, state funds distributed to local health departments under this program will decline by $5,379,522 and *total* funds will decline by $3,395,798. The proposed reduction in state funds is based on the significant increase in state aid for local public health programs provided as a result of AB 8. The AB 8 funds have essentially the same purpose as the existing local public health formula funds and thus a portion of these funds can now be redirected for other purposes.

Increase in Support for State Operations

We recommend that the Public and Environmental Health Division support budget be reduced by $217,721 General Fund (Item 284) to remove salary increases inappropriately budgeted in this item.

In the current year, $813,279 from the General Fund and $2,700,517 of federal funds will be used to offset estimated costs of $3,513,796 for certain positions in the Public and Environmental Health Division. The budget proposes replacing the federal funds with state funds and increasing the amount to $3,786,977 (+$273,181) in 1980–81. The proposed increase includes $217,721 to provide for an eight percent salary increase.

Salary increases should not be included in the department's budget because increases for all state employees are budgeted in Item 488. Therefore, we recommend deletion of $217,721.

Local Projects

The budget proposes an expenditure of $1,695,771 to undertake six new programs which address the needs of local health departments. The projects are:

1. Preventive Medicine Residencies (Office of Local Public Health Assistance)	$169,506
2. Technical Assistance for Contract Counties (Rural Health Division)	435,062
3. Training-Local Health Department Laboratories (Laboratory Services Branch)	42,935
4. Diagnostic Services in Contract Counties (Laboratory Services Branch)	113,426
5. Preventive Health Care for the Aging (Preventive Medical Services Branch	428,857
6. Health Risk Reduction Program (Preventive Medical Services Branch)	505,985
Total	$1,695,771

1. Preventive Medicine Residencies

We recommend reduction of the funds overbudgeted for the preventive medicine resident program, for a General Fund savings of $77,066 (Item 284).

The budget proposes $169,506 from the General Fund to establish a three year preventive medicine resident program. The program would train four physicians for work in state and local health departments. The program would consist of intensive clinical work in a hospital in the first year, attendance at one of the University of California Schools of Public Health (Los Angeles or Berkeley) in the second year, and field experience in a state funded clinic or at a state or local health department in the third year.

Based on our analysis, existing preventive medicine programs at the two schools of public health are not meeting the needs of the state and local health departments, particularly in Northern California. Problems with these programs are that (1) there are not enough resident slots and (2) the program curricula do not address the state's need for physicians oriented toward administration. The Los Angeles campus is attempting to alleviate the problems by developing formal agreements with local agencies for field placements and by expanding the number of residency positions. The Berkeley campus has not taken similar action.

Establishment of the proposed residency program is not a solution for the inadequacies in the schools of public health. In fact, the department will be dependent on these schools for training residents in their second year. Improvements in the university programs are not likely in the short term, however, and therefore we recommend approval of the proposed residency program. We suggest that the department (1) work with the university to improve the university programs and (2) explore alternatives to establishing a residency program within the department, which would more effectively complement and strengthen the university programs. For example, the department might provide stipends for university residents rather than operating a competing program.

Overbudgeting for Four Residents. The department has budgeted the four residents as regular department employees. Our analysis indicates that this results in overbudgeting, for three reasons:

1. *Staff salaries and benefits too high.* The residents will be students receiving stipends, not regular employees. Further, only 7 percent of the amount budgeted for stipends is required for staff benefits. The department proposes to budget 29.1 percent for staff benefits which is substantially more than required.

2. *Operating expenses too high.* Only two residents at most will be physically located at the department offices at any one time. Others will be on rotation in clinics, in local health departments, or at the university. Thus, funds for general expense, equipment etc., are not required for two residents.

3. *Departmental administrative overhead not needed.* The department budgets overhead expenses as they are needed. Funds should not be

included in individual budget change proposals.

We have reviewed the department's budget and recommend a reduction of $77,066 based on resident stipends at University of California hospitals, as follows:

Proposed Department Budget		$169,506
Recommended Budget:		
Stipends (4 at $16,800)	$67,200	
Benefits (7%)	4,700	
Operating Expense and Equipment	18,140	
U.C. Fees	2,400	
Total Recommended Budget		$92,440
Recommended Reduction		$77,066

Therefore, we recommend deletion of $77,066 from the General Fund which is the overbudgeted amount.

2. Technical Assistance for Contract Counties (Rural Health Division)

We recommend deletion of $435,062 from the General Fund for technical assistance for contract counties (Item 292(l)).

The department provides local public health services directly in 16 rural counties through the contract counties program administered in the Rural Health Division. The counties must provide a specified funding level and designate a health officer to participate in the program. Two contract counties are close to the 40,000 population ceiling for this program (Siskiyou and Tehama) and must prepare to operate their own health programs. Nevada County has already reached the limit and will begin to operate its own program in 1980–81.

The department requests $435,062 to provide through consultant contracts (1) training to improve the skills of public health nurses and sanitarians ($225,262), (2) technical assistance, workshops and training in program planning and management ($79,000), and (3) coordination and administration of the technical assistance program ($130,800).

Our analysis indicates there is no justification for the proposed program, for the following reasons:

1. *No justification for skills upgrading.* Most of the training funds in the department's proposal would be used to provide clinical and classroom training in assessment and treatment to 70 nurses. No information has been presented which justifies the need to upgrade the skills of contract county public health nurses to a level similar to that of a nurse practitioner.
2. *No justification to train nurses outside contract county program.* Of the 70 nurses to be trained, 25 would come from outside the contract county program. No information has been provided to justify providing training to these nurses.
3. *Funds already available.* The department has not adequately considered the availability of existing departmental resources in developing its proposal. For example: (a) a substantial amount of technical assistance in planning and budgeting is provided to counties under

AB 8, (b) other units including the Local Environment Programs Section could provide specialized training to sanitarians and consultation in program development, and (c) the department has a training budget to upgrade the skills of its employees. Most contract county public health nurses and sanitarians are state employees.

We recommend disapproval of the proposed training program, for a savings of $435,062, because the department has not provided sufficient justification nor has it adequately considered the availability of existing departmental resources.

3. Training-Local Health Department Laboratories (Laboratory Services Branch)

We recommend approval.

The budget proposes 1.5 positions and $42,935 to provide training to local health department laboratories. Department data indicates that training activities have been curtailed over the past four years due to increases in state services provided to contract counties and increases in the number of unusual specimens referred for analysis by local laboratories. The department indicates that training for local labs will reduce the number of referred specimens in the future.

4. Diagnostic Services in Contract Counties (Laboratory Services Branch)

We recommend approval.

The budget proposes $113,426 for contracts with local laboratories to perform diagnostic tests for contract counties. We have reviewed the department's workload data and recommend approval.

5. Preventive Health Care for the Aging (Preventive Medical Services Branch)

We recommend approval.

The budget proposes an increase of $428,857 for state matching of county support to programs providing public health nursing services to the aged. In 1979–80, 16 projects were funded in the amount of $704,241 from the General Fund. The budget proposes to increase the number of projects to 24 and increase funds for existing projects.

The program served approximately 34,000 older adults in 1978–79. Program data show that over 6,300 cases of hypertension were found, with at least 3,400 brought under control. A total of 152 cases of glaucoma were diagnosed and brought under medical care, avoiding potential blindness. Our analysis indicates that this is an effective prevention program, and we recommend approval of the proposed expansion.

6. Health Risk Reduction Program (Preventive Medical Services Branch)

We recommend deletion of $505,985 from the General Fund for the proposed risk reduction program (Item 292b).

The federal government has provided grant funds of $96,212 to the department and $188,680 to four local agencies in the current year to develop programs which utilize "techniques . . . which have a demonstrated impact on the health-related behaviors of individuals and communities." No state matching is required to obtain these federal funds. The budget proposes to supplement the federal program with (1) funds for eight additional local programs at $54,500 each and (2) training and con-

DEPARTMENT OF HEALTH SERVICES—Continued

sultation contracts in the amount of $69,985, for a total of $505,985 from the General Fund.

We recommend deletion of General Fund support of this program because:

- *Cost implications in future years not identified for the Legislature.* According to the budget proposal, this program could lead to significantly increased expenditures in future years. The proposal states that the department's five year goal is to "stimulate . . . risk reduction activities in every county health department." The department has not identified the costs of expanding the program from 12 counties to statewide.
- *Existing program has not been evaluated.* The federal government requires that the existing program be evaluated but the results are not available because the program is new. The state should not fund additional projects until the evaluations required under the federal program demonstrate that General Fund support is warranted.
- *Use of funds not specified.* The department indicates that a portion of the $69,985 for training and consultation would be used to continue existing federally funded training efforts in health hazard appraisals (currently $21,000). This is a technique in which medical assessment and counseling is provided to individuals based on a questionnaire pertaining to their health habits. The department has not indicated what it intends to do with the remainder of the training and consultation funds.

This recommendation would result in a savings of $505,985 from the General Fund.

C. COUNTY HEALTH SERVICES

The Office of County Health Services was expanded during the current year to implement the health services provisions of AB 8. The budget proposes $631,353 to permanently establish the unit at its existing authorized level of 22 positions.

Scope of AB 8

AB 8 provides fiscal relief to replace property tax revenues lost by local agencies as a result of passage of Proposition 13. A portion of the relief is appropriated to the County Health Services Fund, which was created by the act, for distribution by the department to support local health services. The funds are distributed as follows:

1. $3 per capita, adjusted for inflation, is allocated to counties which submit a plan and budget to the department.
2. Up to 50 percent of 1977–78 net county costs for health services above $3 per capita, adjusted for inflation, is allocated to counties which sign an agreement with the department director to (a) match state funds on a dollar-for-dollar basis and (b) spend funds in general accordance with the county's health services plan and budget.
3. If a county's proposed expenditures are less than the amount required to obtain the maximum allocation, additional funds could be

allocated if, after public hearings, the county demonstrates that it did not detrimentally reduce its health services.

4. Undistributed funds will be reallocated to counties "in accord with special needs and priorities established by the director."

Funds Distributed Under AB 8

At the time AB 8 was being considered by the legislature the department estimated that an appropriation of $267 million to the County Health Services Fund would be required in 1979–80. This amount appears as an estimated expenditure in the Governor's Budget. Some counties, however, have corrected their baseline expenditure data on local health services, resulting in increased expenditures for these services. This will not increase state costs for fiscal relief, but will have the effect of transferring fiscal relief from other categories to health services. As of mid-January 1980 the estimated appropriation to the County Health Services Fund in 1979–80 was $271 million. The department estimates that 1980–81 appropriations will be $306,115,500, based on projected inflation and population growth.

As of the end of January, 55 of the 58 counties had submitted plans and budgets under this program. Fifteen counties proposed expenditures which were less than the amount required to obtain the maximum allocation. Of the 15 counties, detrimental impact hearings had been held in 13 counties.

After preliminary review of the plans and budgets received to date, the department estimates that approximately $1.9 million will be available for distribution to counties "in accord with special needs and priorities established by the director". The department has not identified how the funds will be used.

Request for Staff

We recommend approval.

The budget proposes $631,353 from the General Fund for permanent establishment of the Office of County Health Services with 22 positions (19 new, two redirected, and one through contract) and operating expenses.

AB 8 requires the department to: (1) develop forms and criteria for county plans and budgets, (2) review submitted materials, (3) disburse and account for funds, (4) negotiate agreements, (5) monitor county compliance with the terms of the agreements, (6) monitor hearings held to determine whether a proposed budget has a detrimental impact, and (7) develop criteria and distribute unallocated funds. According to the workload projections, the department intends to provide a substantial amount of assistance to counties as they prepare their plans and budgets. The department also intends to aggregate and analyze the data submitted in the plans and budgets to aid in future policy determinations regarding county health services funding.

Based on the department's experience with implementing the detrimental impact provisions of the 1978–79 fiscal relief bill (SB 154), and based on workload data, the request for staff is reasonable.

Report Requirement

We recommend adoption of supplemental report language which requests the department to report on county health services trends (Item 284).

The department indicates that it intends to aggregate and analyze data submitted by counties under AB 8 to aid in future policy determinations regarding county health services funding. We recommend that the Legislature (1) require the department to submit specific information and (2) provide target dates for the data analysis. The purpose of the reports would be to provide continuing information relative to the effects of Proposition 13 on county health departments.

We recommend adoption of the following supplemental report language:

"By January 1, 1981 and March 1, 1981, the department shall submit reports which provide analysis and data on county health services trends, including discussion of the following variables:

a. Types of service provided and units of service (e.g. patient days, restaurant inspections).
b. Gross expenditures by program type.
c. Net expenditures by program type.
d. Revenues by program type.
e. County and county type (urban, rural, etc.).
f. Allocation of County Health Service Fund monies."

D. PUBLIC AND ENVIRONMENTAL HEALTH

The budget proposes $49,204,755 (all funds) for support of the Public and Environmental Health Division excluding administrative overhead. This is an increase of $11,142,905, or 29.3 percent, over estimated current year expenditures. Department support is proposed in the amount of $43,179,696, which is $8,153,022, or 23.3 percent, above estimated current year expenditures. Local assistance is proposed in the amount of $6,025,-059, which is $2,989,883, or 98.5 percent, above estimated current year expenditures.

The increase in the support budget is due in part to approximately $4 million in new laboratory contracts and equipment expenditures for the newborn screening program. Under this program, existing newborn screening activities will be expanded to include two additional diseases, hypothyroidism and galactosemia, which cause mental retardation if untreated. The program is currently scheduled to be implemented in June 1980 and will be fully fee-supported.

Other significant increases are due to proposals for (1) 58 additional positions for expanded regulation of toxic materials and (2) six new positions for radioactive materials regulation.

The increase in the local assistance budget is primarily due to: (1) $1.8 million for establishment of a dental disease prevention program under Chapter 1134, Statutes of 1979, (2) $505,985 for a new risk reduction program discussed previously and (3) $428,857 for expansion of the public health nursing program operated by the Preventive Medical Services Branch which we also discussed previously.

Toxic Materials Proposals

The department's toxic materials proposals are part of a package submitted by the administration that is directed at improving regulation of hazardous materials, especially wastes. The effort has been motivated by widely publicized incidents in which the improper disposal, transportation, or handling of toxic materials has threatened environmental quality and human health.

Current Departmental Activities

The department's current activities in this area include licensure of disposal sites by the Hazardous Materials Management Section. This program involves (1) classification of sites, depending on the types of wastes which may be accepted and (2) periodic inspection to assure that proper practices are followed. The section also regulates hazardous waste transportation by requiring (1) registration of haulers and (2) reports on each load of waste handled by producers, haulers, and disposal site operators. The section monitors the reports to assure that wastes are disposed of properly and recycled if possible.

With funds provided by the federal government the section is also involved in: (1) analyzing disposal requirements and planning for facilities (2) developing alternatives to disposal such as recycling, and (3) providing technical assistance to local agencies and industry including opening new disposal sites.

The department's current activities also include operation of a "Hazard Alert System" in the Epidemiological Studies Section. The program is funded by the department of Industrial Relations to collect, evaluate, and disseminate information on occupational chemical hazards. The budget includes $1,083,685 for the Hazard Alert System in 1980–81.

Budget Year Proposal.

The budget proposes augmentations of:

1. 22 positions and $816,824 (from the Hazardous Waste Control Account) for expanded enforcement activity in the Hazardous Materials Management Section. Eight of these positions were administratively established in 1979–80 and reported to the Legislature under Section 28, Budget Act of 1979.

2. 13 permanent and 10 limited-term positions and $661,430 ($387,400 General Fund and $274,030 reimbursements from the State Solid Waste Management Board) to search for abandoned dump sites.

3. 13 positions and $632,164 (General Fund) to establish a team which would undertake epidemiological studies (studies of disease patterns) to determine the health effects of environmental hazards.

The budget also proposes that the role of the Hazard Alert System be expanded. This is discussed in our analysis of the Department of Industrial Relations (Item 424).

DEPARTMENT OF HEALTH SERVICES—Continued

1. Hazardous Waste Facilities Enforcement Staff

We recommend approval.

The budget proposes establishment of 22 fee-supported positions, including 13 inspectors plus laboratory and clerical support, to enhance inspection activites at hazardous waste sites. The department has indicated that it intends to raise disposal fees by 50 percent to support this increase. With the new positions, the department will have 25 fee-supported inspectors to permit and monitor 400 hazardous waste facilities. Monthly inspections are required for 120 high priority facilities and semiannual inspections are required for 280 medium priority facilities.

2. Abandoned Waste Dump Search

We recommend deletion of seven of the 23 positions proposed for the search for abandoned waste dump program, for a General Fund savings of $201,305 (Item 284).

The budget proposes $661,430 ($387,400 General Fund and $274,030 reimbursements from the State Solid Waste Management Board) for 23 positions to search for abandoned waste dumps. The proposal involves (1) looking through land use permit and other files which identify industrial dumpsite locations, (2) identifying the composition of the dumps' contents by analyzing company records, (3) field investigations of priority sites to determine whether imminent danger exists, and (4) developing recommendations for cleanup.

Our analysis indicates that a more intensive search for abandoned waste dumps is warranted. The search will indicate the extent to which abandoned waste dumps present a health hazard in California. The department has conducted a pilot project in Contra Costa County, and has determined the best data sources for location of dumps. The department, however, has not analyzed the dumps to (1) evaluate the potential health hazards they represent, (2) determine which types of industries are most often associated with hazardous dumps, or (3) determine the feasibility and costs of a program for cleaning up or containing abandoned hazardous dumps. This type of analysis should be performed prior to expanding the study to include the whole state.

We recommend a more limited expansion of the department's search efforts, with emphasis on the major industrial and agricultural areas in 1980–81. A more limited expansion will allow the department to focus its efforts on the data collection and evaluation methods which offer the best payoff in locating dumps which present human health hazards and which are feasible to clean up or contain.

The department indicates that 16 of the 23 positions proposed for the statewide search will be required to implement the dump search in older industrial and major agricultural counties. Accordingly, we recommend deletion of seven positions, for a General Fund savings of $201,305.

3. Toxic Chemical Environmental Epidemiology

We recommend reduction of seven positions proposed for data collection activities, for a General Fund savings of $316,082 (Item 284).

The budget proposes 13 positions and $632,164 from the General Fund to establish a team which would investigate the health effects of environmental contamination. The team would consist of (a) four positions to perform scientific studies of health impacts of contamination, (b) two positions to investigate incidents of environmental contamination, and (c) seven positions to review data collected by other programs and investigate adverse trends appearing in the data to determine possible hazards.

a. *Scientific studies of health impacts of contaminations.* A unit of four positions is proposed to perform practical research which could be directly applied to the development of environmental standards for use by regulatory agencies. Our analysis indicates that there is a need for an identified unit to study the health effects of toxic chemical contamination, and we recommend approval.

b. *Investigation of incidents.* This new team would be dispatched on a quick-response basis to investigate incidents in which environmental contaminants are suspected of causing health problems. The team would determine the composition of the contaminant and provide information on its health effects. We recommend approval of these two positions.

c. *Review trends in data collected by other programs and investigate adverse trends.* The proposed seven positions would receive and analyze environmental quality and health data from programs throughout state government. They would identify and interpret adverse trends in the data and perform special studies to isolate the causes. The positions would also work with programs which collect data to assure that the data collection techniques are appropriate to the analysis of health effects.

Our analysis indicates that the seven positions are not warranted, for two reasons. First, this analytic approach is not likely to result in practical recommendations. The health effects of environmental contaminants are likely to be subtle, long-term, or broadly dispersed. As a result, systematic analysis of existing data is not likely to result in identification of significant trends and isolation of causes.The department is unable to provide any examples of situations where this type of analysis has resulted in practical recommendations. Second, the data collection and analysis functions appear to duplicate existing departmental functions. Existing units monitor mortality, cancer, and occupational disease data and perform epidemiological studies. Existing units also monitor air and water quality. Some of these units perform epidemiological research on environmental contaminants. We recommend deletion of seven positions and $316,082 from the General Fund.

Flu Vaccine

We recommend deletion of funds proposed for purchase of flu vaccine in Item 292f, for a General Fund savings of $383,024.

The budget proposes $510,699 from the General Fund for assistance to local agencies which provide flu vaccine to high-risk persons including the elderly. The cost of the flu vaccine program is included as a portion of Item

DEPARTMENT OF HEALTH SERVICES—Continued

292f, immunization assistance. The program is operated in conjunction with a federally funded program which is budgeted in the special projects item (Item 286).

In 1978–79, General Fund expenditures for the flu vaccine program were $385,523. The funds were used to purchase flu vaccine for distribution to local agencies which provided the vaccine to persons 55 years and over. A limited amount of federal funds ($26,072) became available late in the fiscal year for state and local administration. Local administrative costs were also partially offset by a small fee authorized under the program.

In the current and budget years, the federal program is expected to expand significantly. Allocations for state and local administrative costs are expected to be $716,461 in the current year and $1,003,046 in the budget year. In addition, the federal government will supply enough vaccine to immunize persons 60 years and over. The department's current year budget of $468,531 assumed that the department would continue to purchase flu vaccine for persons age 55 and over as it did in 1978–79. The department does not intend to spend these funds for this purpose due to the availability of federal funds.

The 1980–81 budget request of $510,699 also assumes that the department will continue to purchase flu vaccine. With the increases in federal support, however, the only remaining reason for General Fund support of the flu vaccine program is to supply vaccine for persons age 55–59, who are eligible under the state program but not under the federal program. This population represents approximately 25 percent of the total population age 55 and over. Thus, we estimate that 25 percent of the budgeted General Fund amount will be sufficient to provide vaccine to persons age 55–59. We recommend deletion of 75 percent of the budgeted amount, or $383,024.

Radioactive Materials Proposals

The department has submitted four budget change proposals to implement recommendations contained in the final report of the State Task Force on Nuclear Energy and Radioactive Materials, issued in April 1979.

The task force was established in 1977, and placed under the direction of the Secretary for Resources. The report contained 107 recommendations in the areas of (1) regulation of users of radioactive materials, (2) environmental surveillance, (3) decontamination of facilities, and (4) transportation of radioactive materials. Based on these recommendations, the department proposes:

1. Three positions and $195,639 ($97,820 General Fund, with the balance from license fees) to development environmental monitoring techniques.
2. Two positions and $68,138 (General Fund) to develop regulations for facilities where there is a risk of accidental release of radioactive materials due to fires, earthquakes, or inadequate security procedures.
3. One position and $57,894 (General Fund) to study the need for a comprehensive system for control of radioactive materials in transit.

4. Contractual funds of $50,000 (General Fund) to develop construction standards to ensure safe decontamination of facilities.

We have reviewed the department's workload justification and recommend approval of these proposals.

Incorrect Budgeting of Overhead

We recommend that $9,343 (General Fund) budgeted for overhead in the environmental monitoring proposal be deleted (Item 284).

The environmental monitoring proposal includes a $9,343 charge for administrative overhead which was based on a formula calculation. However, the department normally budgets overhead expenditures as they are needed rather than on a formula basis. Therefore these funds are improperly included in the budget.

Forensic Alcohol Analysis

We recommend approval (Item 285).

The Laboratory Services Branch of the Department of Health Services regulates, monitors, inspects, evaluates, advises and licenses laboratories and personnel that do testing for concentrations of ethyl alcohol in the blood of people involved in traffic accidents or other violations, in accordance with Sections 436.5–436.63 of the Health and Safety Code. There are presently 65 licensed laboratories. Four professional, two laboratory assistants and two clerical positions are assigned to this program.

The budget proposes $338,864 from the Motor Vehicle Account, State Transportation Fund, to support this program. This is a 5.1 percent increase over estimated current year expenditures of $322,674.

E. COMMUNITY HEALTH SERVICES

The budget proposes $98,985,289 (all funds) for support of theCommunity Health Services Division, excluding administrative overhead. This is an increase of 12.4 percent over estimated current year expenditures. Department support is proposed in the amount of $7,022,570, which is $832,058, or 13.4 percent above estimated current year expenditures. Local assistance is proposed in the amount of $91,962,719 including provider rate increases. This is $10,099,276, or 12.3 percent, above estimated current year expenditures.

The increase in department support is due to (1) additional positions in the family planning program (6.5 positions) and the obstetrical access project (two positions), (2) phase-in of the newborn screening program, (3) transfers from local assistance to support, and (4) other miscellaneous increases. The budget proposes permanent establishment of positions for perinatal health (14.7 positions), sickle cell (3.2 positions), and the Oakland Perinatal Project (5.8 positions).

The local assistance increases are primarily due to (1) projected caseload and cost increases in the California Children Services program, (2) perinatal health care legislation, and (3) legislation which provides support to clinics. The budget reflects reductions in (a) federal Comprehensive Employment and Training Act (CETA) funds used in the current year to support the Oakland Perinatal Project and (b) federal Maternal and Child Health funding.

DEPARTMENT OF HEALTH SERVICES—Continued

Family Planning Staff Request

We recommend approval.

The Family Planning Branch contracts with local agencies to provide contraceptive, sterilization, information and education services. The budget proposes an expenditure of $33,116,552 (all funds) for this branch, including $950,906 for departmental support (excluding administrative overhead) and $32,165,646 for local assistance. The proposed level of expenditures is $2,492,531, or 8.1 percent higher than estimated current year expenditures. The proposed increase in support is $159,313, or 20.1 percent. The proposed increase in local assistance is $2,333,128, or 7.8 percent.

The budget would continue a $4 million augmentation to this program provided by the Legislature in the current year. It proposes an increase of 6.5 positions (one professional and 5.5 clerical) and $117,235 (General Fund) to handle the workload associated with the $4 million augmentation. The department has utilized approximately $800,000 of the $4 million to expand information and education services to teenagers. This is a 50 percent increase in the funds for information and education contracts. These contracts are more complex than the contraceptive and sterilization contracts and require more staff time. In addition, processing of increased numbers of clinic visit records requires more staff. Based on our review of the workload, we recommend approval of the requested positions.

Infant Medical Dispatch Centers

We recommend deletion of 2.2 positions and $78,627 (federal funds) proposed for support of these positions (Item 284).

Chapter 1173, Statutes of 1974, established the Infant Medical Dispatch Center program on a pilot basis. Two centers were funded to link-up hospitals providing obstetrical services to specialized intensive care nursery services. In our report on the program *(Follow-up Evaluation of California's Infant Medical Dispatch Center Program)*, submitted to the Legislature in May 1979, we concluded that available data supported the view that the program is meeting its mandated goals of protecting the health of critically ill newborn children and more efficiently utilizing space and staff in intensive care nurseries.

Chapter 207, Statutes of 1979, permanently established the program and appropriated $207,337 to fund it in 1979–80 ($188,000 for the two centers and $19,337 for .5 nurse consultant positions). In addition, the department has utilized $66,200 in federal Title V (maternal and child health) funds to support 1.8 additional support positions in 1979–80. These positions were administratively added in the current year.

The budget proposes continued funding for (1) .5 nurse consultant positions ($17,022) from the General Fund, and (2) 2.2 positions ($78,627) with federal funds, for a total of 2.7 positions and $95,649.

The use of federal funds for the Infant Medical Dispatch Program support staff is not consistent with legislative intent. The bill which permanently established this program originally contained an appropriation of

$106,000 for 1979–80 departmental administrative costs. The appropriation was reduced by the Legislature to $19,337 specifically to limit administrative costs of the program because the original administrative appropriation of $106,000 (36 percent of the total appropriation) was deemed to be inordinately high relative to the proposed local assistance funding of $188,000. The department now proposes to spend over $95,000 for administration.

Our analysis of the workload justification indicates that only .5 positions are required to administer this program. Therefore, to be consistent with legislative intent, we recommend deletion of the 2.2 positions and associated funds.

Sickle Cell Regulations

We recommend deletion of .5 of 3.2 positions proposed for implementation of the sickle cell regulations for a savings of $15,123 (Item 284).

The department proposes permanent establishment of 5.2 positions ($169,180 from the General Fund) to implement new regulations affecting programs which provide sickle cell disease screening and counseling services. Two of the proposed positions are in the Laboratory Services Branch and 3.2 are in the Genetic Disease Section. The 3.2 positions in the Genetic Disease Section would be in addition to 2.3 existing permanently authorized positions which administer sickle cell local assistance funding.

Our analysis of the workload justification submitted for the 3.2 Genetic Disease Section positions indicates that only 1.5 professional and 1.2 clerical positions are justified. Accordingly, we recommend deletion of .5 positions and $15,123 (General Fund).

Clinics Program

Chapter 1186, Statutes of 1979 (AB 1317), appropriated $2.1 million from the General Fund without regard to fiscal year for a grant and loan program intended to assist clinics located in underserved areas or serving underserved populations. The funds are to be used for: (1) grants for clinic operating costs ($1,300,000), (2) grants and loans for building renovation and equipment acquisition ($700,000) and (3) program administration ($100,000).

1. *Operating costs grant program ($1,300,000).* The act specifies that grants shall be awarded according to criteria which consider (a) the applicant's long-term prospects for financial stability, (b) the applicant's need for funds to continue its current level of operation, (c) the quality of services provided, and (d) services provided to high-risk or underserved populations. The act provides for matching by clinics but such matching may be waived. The Community Health Services and Rural Health Divisions administer this program.

2. *Building renovation and equipment acquisition grant and loan program (grants $500,000 and loans $200,000).* The act specifies that grants and loans shall be provided to clinics to meet licensing requirements, fire and safety standards, and handicapped accessibility standards. The maximum grant award is $50,000. The Office of Statewide Health Planning and Development administers the grant and loan program.

3. *Administration ($100,000).* The act provided $100,000 to the depart-

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ment for administrative costs.

Status Report. The administering agencies have developed preliminary draft regulations in consultation with the Primary Care Advisory Committee. A public hearing on the draft regulations had not been scheduled as of mid-January. The department and the Office of Statewide Health Planning and Development indicate that clinics have expressed interest in the program and that many intend to apply for funds (particularly operating grants) when the regulations are adopted.

California Children Services

The California Children's Services (CCS) program provides medical care and related services to children with physical handicaps. These services are intended to correct, ameliorate, or eliminate such handicaps. Diagnosis, treatment, and therapy services are funded on a three-part state and federal to one-part county basis. The program is independently managed by 25 counties, under procedures established by the department. Administrative services are partially funded by the state. The department administers the program directly in the 33 remaining counties.

Under this program, families must repay the state for services provided to children. The amount of repayment is determined by a sliding scale based on income. Repayment requirements are not applied to families of children participating in the medical therapy programs in special schools and classrooms which are provided in conjunction with the Department of Education. These are considered educational programs and do not require family income eligibility determinations or collect any fees.

During February 1980, the program will implement a revised system of financial eligibility and charges to families. Under this system, families with incomes of $100,000 or under will be eligible for services. A family's maximum payment for services provided by CCS will equal 200 percent of the family's tax liability in the prior year. The payment formula was developed during hearings on the 1979–80 budget.

The budget proposes $54,299,430 (all funds) for assistance to local CCS programs, an increase of $9,832,526, or 22.1 percent, over estimated current year expenditures. Expenditures for department support are proposed to be $2,236,606, a 4.2 percent increase over estimated current year expenditures. Table 6 shows the actual, estimated and proposed budget year expenditures for the CCS program.

Table 6
California Children Services
Expenditures by Program
(in thousands)

	Actual 1978–79	*Estimated 1979–80*	*Proposed 1980–81*	*Change*	
				Amount	*Percent*
Diagnosis	$1,942.7	$2,086.4	$2,564.7	$478.3	22.9%
Treatment	26,809.7	28,791.7	35,392.5	6,600.8	22.9
Therapy	10,102.2	10,849.1	13,336.3	2,487.2	22.9
County Administration	2,534.3	2,686.3	2,928.1	241.8	9.0
Other Local Assistance	45.3	53.4	77.8	24.4	45.7
Subtotals	$41,434.2	$44,466.9	$54,299.4	$9,832.5	22.1%
State Administration	1,743.3	2,146.7	2,236.6	89.9	4.2
Totals	$43,177.5	$46,613.6	$56,536.0	$9,922.4	17.6%

Table 7 shows the funding by source for the CCS program.

Table 7
California Children Services
Proposed Source of Funds
(in thousands)

	Actual 1978–79	*Estimated 1979–80*	*Proposed 1980–81*
General Fund			
Item 293, CCS Local Assistance	$26,424.8	$28,400.3	$33,662.8
Item 284, Department support	1,743.3	2,146.7	2,236.6
Item 291, Provider rate increase	—	—	1,274.1
Family Repayment	662.9	965.0	1,099.7
County Funds	9,703.8	10,396.9	12,792.0
Federal Funds—Title V	4,642.7	4,704.7	4,704.7
Federal Funds—Medi-Cal	—	—	766.2
Totals	$43,177.5	$46,613.6	$56,536.1

California Children Services—Local Assistance Cost Increase

The diagnosis, treatment, and therapy costs of the program are budgeted at $51,293,483 (including county funds) which is an increase of 22.9 percent over estimated current year expenditures. According to the department, the increase is required for the following reasons:

1. Caseload is expected to increase eight percent of which (a) five percent is due to historical growth trends, (b) two percent is due to liberalization of the eligibility and repayment requirements in the current year, and (c) one percent is due to increased utilization of the program as a result of a projected economic recession.

2. To provide rate increases of nine percent for physicians and other providers, and 13.8 percent for hospitals. The rate adjustments result in an average rate increase of 11.9 percent in the treatment portion of the program, based on the program's experience of 39 percent outpatient expenditures and 61 percent inpatient expenditures. Diagnosis and therapy expenditures would increase in line with the outpatient rate of 9 percent.

3. Additional increases in the 1980–81 budget year are due to understatements in the current year cost estimates. These reflect increases in caseload and cost which actually will occur in the current year but are not yet reflected in the current year figures.

California Children Services (CCS)—Agreement with Medi-Cal Program

The CCS, Maternal and Child Health, Child Health and Disability Prevention, and the Medi-Cal programs have concluded an agreement which commits them to work together more closely. This agreement has been tentatively approved by the federal Health Care Financing Administration (which monitors Medi-Cal), and should make significantly more fed-

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eral Medi-Cal funds available to these programs.

The CCS budget reflects $766,170 in new federal funds from the Medi-Cal program. The amount was calculated based on prior experience with federal participation in the CCS program. Until 1977–78, the Medi-Cal program reimbursed county programs for case management and prior authorization services provided to Medi-Cal eligible patients. Since 1977–78, the department has allocated General Fund monies to counties for this purpose. Approximately $800,000 will be provided in the current year.

Significant federal funds in addition to the $766,170 could be available to the CCS program depending on how the agreement is implemented:

1. Funds could be available at a higher matching ratio (75 federal-25 state instead of 50-50) if CCS integrates its services with the Child Health and Disability Prevention program.
2. Funds could be available for partial support of state administrative functions in addition to counties' administrative functions.
3. Medi-Cal payment may be provided for therapy services provided to Medi-Cal eligible children.

We anticipate that the department will be prepared during budget hearings to discuss exactly how it intends to implement the agreement and the anticipated amount of federal funding.

Inadequate Planning and Evaluation in the Maternal and Child Health Program

The Maternal and Child Health Branch has the general mission of improving the health status of women and children. The budget proposes expenditures of $3,891,261 for department support excluding administrative overhead. This is an increase of $493,482, or 14.5 percent, over estimated current year expenditures. The budget proposes expenditures of $13,619,526 for local assistance, a decrease of $678,225, or 4.7 percent, below estimated current year expenditures. This excludes the Supplemental Food Program for Women, Infants and Children and two other special projects which are budgeted in the Special Projects item.

The decrease in local assistance funding is due to (1) a reduction in the amount of federal funds available, (2) loss of federal Comprehensive Employment and Training Act (CETA) funds which are being used for the Oakland perinatal project in the current year, and (3) transfers of funds from local assistance to support.

The general activities of the branch are supported by the state's maternal and child health allocation under Title V of the federal Social Security Act. In 1979–80, the branch will utilize the federal allocation of approximately $11.7 million as follows:

1. Department support ($1.7 million).
2. Allotments for county programs ($600,000).
3. Federally-mandated demonstration projects in maternal and infant care, intensive infant care, family planning, dental care, and children and youth, ($4.4 million).
4. Innovative local projects on a three-year funding cycle ($5.0 million). Projects supported by these funds include the obstetrical access pilot project (partially funded by Medi-Cal) and the Oakland perinatal project (partially funded with redirected family planning funds).

Other programs administered within the branch have specific goals established by legislation and are funded from appropriations in separate legislation (e.g., perinatal access), with Budget Act funds (e.g., sickle cell disease) or with other special funds (e.g., the Genetic Disease Testing Fund).

Our review of the Maternal and Child Health program indicates that there is a lack of planning and ongoing program evaluation:

1. The program has not used formal criteria to choose projects for funding under Title V, to make renewal decisions, or to allocate funds between different types of projects.
2. The department has not systematically reviewed its experience with completed projects and applied its findings to decisions on future directions in funding.
3. Evaluations of the projects have not addressed how limited funds may be utilized most effectively.
4. The state Maternal and Child Health Plan has not been updated since early 1977. Such a plan is required annually and could supply needed policy direction to the program.

The new director of the Community Health Services Division has indicated an intention to address these problems. We understand that project review criteria are under development and that an update of the Maternal and Child Health Plan is underway.

We anticipate that during budget hearings the department will be prepared to report on its progress in remedying these deficiencies and the problems it has encountered in attempting to do so. In addition to providing a general status report, the department should specifically address its schedule for completion of the Maternal and Child Health Plan, and the subjects to be covered within the plan.

F. LICENSING AND CERTIFICATION

The budget proposes $13,131,388 (all funds) for support of the Licensing and Certification Division excluding administrative overhead. This is an increase of $1,454,902, or 12.5 percent, over estimated current year expenditures.

The division has submitted one major budget change proposal which would increase by $853,908 the amount of funds available for a contract with Los Angeles County to perform the department's licensing and certification responsibilities. The budget also requests three additional positions for licensure of psychiatric facilities.

Los Angeles County Subcontract

We recommend that the increase proposed for the Los Angeles County subcontract be reduced to 9 percent, for a savings of $217,442 from the General Fund and $245,200 in federal funds scheduled in Item 284.

Under existing law, the division is responsible for licensure of acute hospitals, skilled nursing facilities, clinics, and other health facilities. In addition, the federal government reimburses the division for certifying health facilities for participation in Medicare and Medi-Cal (in practice,

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certification and licensure take place during the same inspections). The division has historically received approximately 65 percent of its operating budget through contract with the federal government.

The division subcontracts with Los Angeles County to perform these functions within the county except at county-operated facilities. The state-federal contract and the state-Los Angeles County subcontract are written on a federal fiscal year basis, i.e., October through September instead of July through June. The department has been notified of the amount approved by the federal government for the 1979–80 state-federal contract, but as of mid-January the department has not negotiated the state-Los Angeles County subcontract.

The budget includes $3,615,092 as estimated current year expenditures for the subcontract. The department, however, indicates that current year expenditures for the subcontract are actually expected to be $3,950,000. This is $334,908 more than the amount shown for 1979–80 in the 1980–81 budget, and $482,493, or 13.9 percent, above 1978–79 actual expenditures. The department has not indicated how it intends to fund this shortfall.

The budget proposes 1980–81 expenditures of $4,469,000, which is $519,000, or 13.1 percent, above the department's estimated current year expenditures.

The department has not provided any justification to support the proposed increases of 13.9 and 13.1 percent in the contract amounts. Moreover, the federal government has approved the current year Los Angeles subcontract at a level which is only six percent higher than the previous year, not 13.9 percent. In the absence of justification for the large increases requested by the department, we recommend that the budget-year amount be reduced to reflect increases of six percent in 1979–80 and nine percent in 1980–81. These amounts are consistent with increases granted to other local providers in the local assistance item.

This results in subcontract amounts of $3,675,557 for 1979–80 and $4,006,358 for 1980–81. Accordingly, we recommend that the budgeted amount of $4,469,000 be reduced by $462,642 ($217,442 General Fund and $245,200 federal funds).

G. RURAL HEALTH

The budget proposes $11,556,690 (all funds) for support of the Rural Health Division, excluding administrative overhead. This is an increase of $2,546,517, or 28.3 percent, over estimated current year expenditures. Department support is proposed in the amount of $4,204,285, an increase of $496,033, or 13.4 percent over estimated current year expenditures. Local assistance is proposed in the amount of $7,352,405, an increase of $2,050,484, or 38.7 percent, over estimated current year expenditures.

The proposed increases are primarily due to an augmentation for farmworker health services. Other increases involve staff for the Indian Health program and some shifts between local assistance and support.

Farmworker Health Services

We recommend approval.

The budget proposes $1,023,271 from the General Fund for farmworker health services. The proposal includes $109,068 for four additional positions (nurse, health educator, nutritionist, and a management services technician) and $914,203 in local assistance which consists of:

1. $87,200 to fund outreach in existing projects
2. $136,250 to expand health services in existing projects
3. $554,503 for new projects
4. $136,250 for data collection on farmworker needs.

State and federal programs now serve approximately 100,000 persons out of an estimated 525,000 seasonal farmworkers (including families) and 175,000 migrant farmworkers (including families). The number of persons who actually need services is unknown. Part of the additional funds would be used to collect better information on the need of this population.

The department has identified a minimum of six "grossly medically underserved" areas in which new projects could be placed. The proposed budget augmentation would serve an additional 12,000 persons.

The nurse and clerical positions are required to provide assistance to projects and administer the additional funding. The nutritionist and health educator will initially develop materials explicitly directed towards farmworker populations but ultimately will serve the entire Rural Health Division, which does not now have individuals with these skills. We also recommend that these positions be utilized to partially support the Indian Health program (see below).

Indian Health Services

We recommend deletion of two positions proposed for implementation of Chapter 946, Statutes of 1978 for a General Fund savings of $68,308 (Item 284).

The budget includes $68,308 from the General Fund for two positions in the Indian Health Branch (a Health Program Advisor II and an Office Assistant II) and contracts with a nutritionist and a health educator. The positions are requested to implement Chapter 946, Statutes of 1978 (AB 3141), which requires the department to (1) provide technical assistance to Indian projects in preventive health, health education, and environmental health and (2) assure that sufficient funding is available from other health programs for Indian health needs. We cannot recommend approval of the department's proposal for the following reasons:

1. The Health Program Advisor II position would not provide services to projects but would identify other units in the department which could provide services. The clerical position would provide support for this function. The budget proposal states:

> "The Health Program Advisor II will be responsible for identifying appropriate resources within the department for funding to provide training and technical assistance for local Indian health programs.
>
> "Once the funding sources are identified, the Health Program Advisor II will communicate funding criteria and application deadlines to

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the program. The Health Program Advisor II will provide necessary assistance to the programs to enable them to obtain funding."

The department does not need an additional position to identify resources within the department and assist projects to apply for funds. Such assistance should be provided through the normal coordination of departmental programs.

2. The Health Program Advisor II is not required to identify Indian health needs. The Indian Health Branch currently has 0.8 Research Analyst II positions to perform this function.

3. The Rural Health Division has requested a full-time nutritionist and health educator in the farmworker health proposal. Additional contractual funds are not required.

We recommend that the department assess the needs of Indians and perform the functions cited in the proposal using existing staff supplemented by staff requested in the farmworker proposal. We therefore recommend a reduction of $68,308.

Rural Hospitals Program

We recommend a reduction in the contract funds in the rural hospitals program for a savings of $27,000 to the General Fund (Item 284).

The budget proposes one position and $96,651 (including $54,000 for contracts with Health Systems Agencies) to implement Chapter 1332, Statutes of 1978, statewide. Chapter 1332 established a four year demonstration project in which selected regulations could be waived for small rural hospitals designated as primary health service hospitals. To be eligible for designation, applicants would be required to develop plans for diversifying services and meeting local needs more effectively.

The department has been hampered in implementing this project by a lack of staff. A redirected position in the Rural Health Division has not been filled. An additional position approved by the Legislature during hearings on the 1979 Budget Bill was vetoed by the Governor.

Using borrowed staff, an application for waiver of certain regulations was developed and submitted to HEW in May 1979. The most important waiver request involves the "swing bed" concept. This waiver would allow hospitals to use beds licensed for acute patients, for skilled nursing patients without losing their acute hospital license. Other parts of the waiver request involve alternative hospital staffing patterns, changes in reimbursement formulas, and waiver of certain facility physical plant and equipment requirements.

HEW has rejected the department's application for waivers, although it has indicated a willingness to reconsider the request at a later time. It is still possible for the state to waive *state* regulations without federal approval. However, state regulations do not have as great an impact on small hospitals as the federal regulations.

Other developments under this program include the following: (1) a workbook for hospitals seeking designation as primary health services hospitals has been prepared through contract; (2) a sample application for rural hospitals is being developed, but it has not been completed; and (3) initial conversations with state licensing staff have been held.

In summary, progress on implementing Chapter 1332 has been very slow and indications are that participation in the program will be lower than anticipated due to denial of the request for federal waivers. As a consequence, workload will not be as great as previously estimated. For this reason, we recommend a reduction of $27,000 from the General Fund for contract funds proposed for health systems agencies to assist hospitals in the application process. The recommended reduction equals one-half of the amount requested. This would provide sufficient funds to assist one-fourth of all eligible rural hospitals apply under the program.

H. SPECIAL PROJECTS: ITEM 286

The special projects budget item contains 133 public health services, demonstration, research, and training projects. The projects are typically of short duration and are administered in various sections of the department. Most of the projects are federally funded.

The budget proposes an expenditure of $92,686,333 which consists of $89,052,995 in federal funds and $3,633,338 in reimbursements from other state agencies. This is an increase of $24,131,376, or 35.2 percent, over estimated current year expenditures. The budget proposes 656.9 positions for support of the projects (577.2 federal and 79.7 state). This is an increase of 183.5 positions, or 38.8 percent, over the estimated current year level of 473.4 positions (413.6 federal and 59.8 state).

The budget increases of $24,131,376 and 183.5 positions are due primarily to increases in the Women, Infants, and Children Food program and new projects.

1. *Special Supplemental Food Program for Women, Infants, and Children (WIC).* The WIC program provides food vouchers to nutritionally-at-risk infants, children and pregnant women. It is 100 percent funded by the federal Department of Agriculture. WIC is the largest proposed special project, and is budgeted to utilize $59,400,000, or 64.1 percent, of the special project funds in 1980–81. It accounts for $13,703,642, or 56.8 percent of the $24.1 million increase in the special projects item. Table 8 provides data on the rapid increases in the WIC budget.

Table 8

Women, Infants, and Children Program

	Actual 1978–79	*Estimated 1979–80*	*Budgeted 1980–81*
Food Vouchers	$26,453,030	$37,534,613	$47,981,248
Personal Services	394,612	852,676	1,073,869
Other [a]	5,389,573	7,309,069	10,344,883
Totals	$32,237,215	$45,696,358	$59,400,000

[a] Includes allocations to local agencies for administration of the program.

2. *New Projects.* Of the 133 projects included in the proposed budget, 59 are new and will cost $8.2 million. The new projects include primarily research projects in the Laboratory Services Branch and Preventive Medical Services Branch. Although applications have been submitted to the federal government for the projects, funding is not certain.

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Departmental Overhead Recoveries

We recommend deletion of $200,385 from the General Fund to correct for an underestimate of reimbursements from Special Projects (Item 284). Reimbursements should be increased by $400,769 and federal and other special funds should be reduced by $200,384.

When the department performs a service for the federal government or another state agency, it bills the direct costs of the service (personal services, equipment, etc.) plus allocated indirect costs including (1) departmental overhead (Administration Division, Director's Office, etc.) and (2) statewide overhead or SWCAP (Departments of Finance, General Services, etc.). The indirect cost recoveries for federal special projects appear as reimbursements to the Administration Division in the detailed budget schedules supplied to our office.

Our analysis indicates that the department has underestimated the amount of departmental overhead cost recoveries from these projects. This has the effect of unnecessarily increasing the General Fund appropriation for department support in Item 284. Our analysis is based on the following considerations:

1. *Current year estimated recoveries* are $1,360,827 or $3,290 per personnel year (based on 413.6 federally funded personnel years). We estimate that this amount plus nine percent, or $3,586 per personnel year, will be recovered in 1980–81.

2. *New Projects.* The department expects that *some* of the new 1980–81 projects listed in the budget will be funded by the federal government but it makes no allowance for *any* of the new projects in estimating recoveries. Our analysis indicates that a portion of new project recoveries should be included in the budget. To determine the correct proportion, we examined the department's assumptions which were used to prepare the 1979–80 budget and the department's actual experience to date.

The 1979–80 Governor's Budget projected an increase of 94.3 federally funded positions (463.8 in 1979–80 less 369.5 in 1978–79). The adjusted budget now shows 413.6 authorized positions for 1979–80. Thus 44.1 out of the 94.3, or 46.8 percent, were actually funded.

The 1980–81 budget shows an increase of 163.6 positions from 1979–80 to 1980–81 (413.6 to 577.2). Assuming that 46.8 percent of the projected new positions (76.6 positions) will be funded, the total number of federally funded positions in 1980–81 would be 490.2.

Estimated recoveries. Assuming an average recovery of $3,586 per position, and a position count of 490.2, we project that total recoveries will be $1,757,857, versus budgeted recoveries of $1,357,088. We recommend that the difference—$400,769—be added to projected reimbursements, permitting a General Fund savings of $200,385 and savings of $200,384 for federal and special funds.

I. LEGISLATIVE MANDATES: ITEM 294

We recommend approval.

The budget proposes a General Fund appropriation of $180,000 to the State Controller to reimburse local government agencies for local health program costs mandated by state law (Item 294). This amount is 6.2 percent over the amount budgeted for the current year. The reimbursements are required by Section 2231 of the Revenue and Taxation Code.

The mandating legislation and the estimated costs contained in the Governor's Budget for the budget year are:

1. Chapter 954, Statutes of 1973 (X-ray)	$170,000
2. Chapter 453, Statutes of 1974 (Sudden Infant Death Syndrome)	10,000
Total	$180,000

2. CALIFORNIA MEDICAL ASSISTANCE PROGRAM (Medi-Cal)

A. SUMMARY

The budget proposes six appropriations totaling $2,368,148,080 from the General Fund for support of the Medi-Cal program in 1980–81, which is an increase of $261,747,319 or 12.4 percent, over estimated current year expenditures. Table 9 shows the proposed General Fund amount for each item and the matching federal funds. In total, the budget proposes an expenditure of $4,271,092,522 from all funds in 1980–81, which is an increase of $492,976,205, or 13.0 percent over estimated current year expenditures.

Table 9
Overview of 1980–81 Medi-Cal Program Expenditures[a]

Item	*Purposes*	*General Fund*	*Federal Funds*	*Total*
284	Department Medi-Cal Operations	$32,044,718	$42,278,424	$74,323,142
287	Health Care Services	2,141,329,850	1,706,267,766	3,847,597,616
288	County Eligibility Determinations	96,297,122	46,444,429	142,741,551
289	Claims Processing	15,509,700	35,051,600	50,361,300
290	Child Health Disability Prevention	2,580,291	8,023,123	10,603,414
291	Provider Rate Increases	80,386,399	64,979,100	145,365,499
	Totals	$2,368,148,080	$1,903,044,442	$4,271,092,522

[a] Excludes General Fund appropriation of $60,667,895 to Department of Mental Health for Short-Doyle Medi-Cal (Item 302).

Medi-Cal Eligibility

Medi-Cal is a joint federal-state program authorized by Title XIX of the Social Security Act. The program began in 1966, and provides health care services to California's cash grant welfare recipients. In any one month, there are approximately 1.4 million AFDC recipients and 720,000 aged, blind and disabled (SSI/SSP) recipients who automatically qualify for Medi-Cal.

Under the Medi-Cal program, two other groups—the medically needy (MN) and the medically indigent (MI)—are also eligible for health care services.These eligibility categories include approximately 350,000 and 380,000 persons respectively. Eligibility for the MN and MI categories is determined by comparing medical expenses and available income. The program determines how much an eligible individual could spend for medical expenses by deduction from the individual's income an amount for living expenses. If the amount that can be devoted to medical expenses

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is not sufficient to defray the costs, the Medi-Cal program pays the difference. The amount an individual currently is allowed to retain for living expenses is shown in Table 10.

Table 10
Medi-Cal Program Monthly Maintenance Needs Standards for Medically Needy and Medically Indigent Recipients

	Amount Allowable for Living Expenses	
Family Size	*Aged, Blind Disabled* *	*All Other*
1	$399	$291
2	776	442
3		550
4		650
5		742
6		833
7		917
8		1,000
9		1,083
10		1,158

*Not eligible for cash grant welfare assistance. Most such aged, blind or disabled persons live alone or with a spouse. Few have dependent children.

Cost of Living Increases

Each year the amount of money the MI and MN recipients are allowed to retain for living expenses is automatically increased, based on changes in the consumer price index. The cost of living adjustments are required by state law. The adjustment in the current year resulted in a 15.16 percent increase, and the adjustment for 1980–81 is currently estimated to be 14.65 percent. The cost-of-living adjustment in effect diverts some of a recipient's income from medical expenses to living expenses, thereby increasing Medi-Cal program expenditures. The full year cost of the 1980–81 increase is estimated at $34.1 million ($22.7 million General Fund).

Scope of Benefits

Medi-Cal recipients are entitled to a full range of health services including inpatient and outpatient hospital services, laboratory services, nursing home care and various other health-related services. There are a number of medical expenses for which the program will not pay, such as the cost of specific drugs or certain surgical procedures. There are also utilization limits for some services. Admission to nursing homes and hospitals require prior state authorization.

Many of the services offered by the Medi-Cal program are not federally required. Table 11 lists the optional services currently available under the program and their estimated cost in 1980–81.

Table 11
Optional Medi-Cal Services [a]
1980–81 Fiscal Year
(Full Year Impact Including Provider Rate Increase)

	Total Services	*General Fund*
Drugs	$200,445,900	$107,908,400
Dental (Adults)	85,332,000	46,286,400
Organized Outpatient Clinic	27,631,100	15,932,700
Intermediate Care Facility—Developmentally Disabled	27,248,500	13,624,300
Intermediate Care Facility—Others	22,025,500	11,012,800
Prosthetics/Orthotics/Durable Medical Equipment	20,220,900	11,657,900
Optometry (Eye Appliance)	16,699,000	9,629,000
PHPs (Optional Services)	14,292,000	7,146,000
Podiatrists	13,494,300	7,781,000
Psychologists	9,638,800	5,557,900
Hearing Aids	6,330,300	3,511,600
Adult Day Health Care	5,712,900	2,940,800
Redwood (Optional Services)	5,138,900	2,569,500
Opticians	3,105,800	1,790,900
Chiropractors	1,927,800	1,111,600
Speech Therapists/Audiologists	1,499,400	864,600
Physical Therapists	856,800	494,000
Blood Banks	617,500	342,500
Independent Rehabilitation Centers	214,200	123,500
Occupational Therapists	107,100	61,800
Totals	$462,538,700	$250,347,300

[a] In addition to the above services, at least part of the following services may be considered optional.
- Short-Doyle $98,477,500 ($60,667,895 General Fund).
- Medical Transportation $27,421,700 ($15,340,700 General Fund).
- Psychiatric Hospitalization for under 21 year olds and over 64 year olds. (No estimate of cost for this service is available.)
- Other Service/Providers $8,543,600 ($4,739,400 General Fund).

Table 12 shows that in 1978–79, the cost per eligible person varied considerably by aid category, from a low of $562 per AFDC eligible to a high of $2,510 per MN eligible. Differences in the types of services received and in the incidence of utilization of services by each eligibility category accounts for the differences. For example, nursing home services which are relatively expensive, are utilized more frequently by MN individuals relative to individuals in the other eligibility categories.

Table 12
Average Costs and Total Expenditures by Eligibility Category
1978–79

Aid Category	*Annual Cost Per Eligible*	*Health Care Expenditures (in millions)*	*Percent of Expenditures*	*Percent of Eligibles*
1. Cash Grant				
Aged	$842	$273.2	8.5%	11.5 %
Blind	1,480	19.1	.6	.45
Disabled	1,905	686.6	21.5	12.7
AFDC	562	801.6	25.1	50.4
2. Medically Needy	2,510	823.3	25.8	11.6
3. Medically Indigent				
Children	992	115.8	3.6	4.1
Adults	1,825	473.3	14.8	9.2
Totals		$3,192.9	100%	100%

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Table 13 shows the average costs for all Medi-Cal recipients by service category in 1978–79. The table also shows how frequently the different services were used.

Table 13
1978–79 Average Cost and Monthly Usage of Medi-Cal Program Services [a]

	Average Cost	*Average Monthly Use*
Physicians Services	$51 per patient	800,000 patients
Other Professional Services	$34 per patient	260,000 patients
County Outpatient Department	$48 per patient	75,000 patients
Community Outpatient Department	$53 per patient	192,000 patients
Drugs	$7.32 per prescription	1,980,000 prescriptions
County Hospital Inpatient	$1,897 per stay	12,500 patients
Community Hospital Inpatient	$1,308 per stay	53,300 patients
Nursing Homes/Intermediate Care	$715 per month per patient	66,200 patients
Transportation	$62 per user	28,300 patients

[a] Excludes prepaid health plans, state hospital and Short-Doyle patients and costs.

Eligibility Trends

Table 14 shows historical eligibility trends and the projected growth in the budget year over the current year.

Table 14
Average Monthly Number of Persons Eligible for Medi-Cal 1975–76 to 1980–81

Recipient Categories	*Actual 1975–76*	*Actual 1976–77*	*Actual 1977–78*	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*	*Percent Change 1980–81*
1. Cash Grant							
a. Aged	342,566	331,137	328,207	324,548	330,000	331,800	.5
b. Blind	13,394	12,875	12,850	12,901	17,900	18,050	0.8
c. Disabled	322,579	338,067	348,096	360,712	381,750	396,300	3.8
d. AFDC	1,501,083	1,488,696	1,473,148	1,427,548	1,437,850	1,432,250	−0.4
2. Medically Needy	201,943	278,214	325,242	326,321	349,850	374,700	7.1
3. Medically Indigent							
a. Children	65,565	99,041	129,026	116,495	118,300	128,200	8.4
b. Adults	169,278	237,787	287,596	259,166	260,400	273,100	4.9
4. Other	11,275	21,721	23,750	15,078	—	—	—
Totals	2,627,683	2,807,538	2,927,915	2,842,769	2,896,050	2,954,400	2.0%

B. MEDI-CAL HEALTH CARE COSTS: ITEM 287

The budget proposes $2,141,329,850 from the General Fund for the cost of health care services provided to Medi-Cal recipients. This is an increase of $182,847,100, or 9.3 percent, over estimated current year expenditures. When the amount proposed for a nine percent provider rate increase is included, the total proposed expenditure is $2,217,934,250, which is $259,451,500, or 13.2 percent, above the estimated current year General Fund expenditures.

County Share Buy Out

Item 287 includes the state cost of "buying out" the county share of Medi-Cal expenditures. Following the passage of Proposition 13, SB 154 appropriated $418 million to relieve counties of all fiscal responsibility for Medi-Cal program costs. Subsequently, AB 8 was enacted, which made permanent state assumption of county Medi-Cal costs. AB 8 contained a $505 million appropriation for the cost of the county share in 1979–80. For 1980–81 and thereafter, the cost to buy out the county share will be included in each Budget Bill. If a county share were required in 1980–81 it would be approximately $532 million.

Medi-Cal Funded Abortions

The Budget Act of 1979 contained language limiting the circumstances under which the Medi-Cal program would pay for abortions. The California Supreme Court, however, has prevented the implementation of the Budget Act restrictions, and the department assumes that Medi-Cal program funding of elective abortions will continue through the remainder of this fiscal year. If restrictions are not imposed, the department estimates that the program will pay for 106,100 abortions in 1979–80 at a cost of $34,483,000 ($34,272,500 General Fund).

The proposed budget assumes that there will be no restrictions on abortions during the budget year. Thus, 107,200 abortions at a cost of $32,160,000 ($31,767,500 General Fund) are projected during 1980–81. The budget reflects minimal ($392,500) federal funding for abortions. The level of federal participation, however, could increase significantly as a result of the recent federal District Court decision that struck down many of the existing federal abortion restrictions.

Abortion Fee Decrease

The department's December 1979 cost estimates indicate that the physician fee for an abortion will be reduced. The proposal would reduce the fee from $175.50 to $121.32, a reduction of $54.18.

The current fee is based on a 1969 study of the relative value (that is, the difficulty) of various medical procedures. In 1974 the California Medical Association (CMA) updated its relative value study. The 1974 study indicated that the difficulty of an abortion compared to other procedures had declined. The rate change reflects this decline. If the fee for an abortion is reduced by $54.18, the Medi-Cal program will expend approximately $5,750,000 less on physician abortion fees annually.

The proposed reduction will require a change in Medi-Cal regulations. As of February 1, 1980, a public hearing date had not been scheduled relative to changing the regulations. The department should be prepared to discuss the proposed abortion fee decrease at the budget hearings.

DEPARTMENT OF HEALTH SERVICES—Continued

Expenditure Trends

Table 15 shows that *total* federal and state Medi-Cal expenditures for health care services grew very rapidly (average annual increase; 15.9 percent) through 1978. In 1978–79, however, expenditures grew by 10.5 percent, down 6 percent from the growth rate during the prior year. In the current fiscal year, the 1980–81 budget projects that expenditures will increase by 10.8 percent. The increase includes provider rate adjustments granted by the 1979 Budget Act and Chapter 1197, Statutes of 1979 (AB 275). For 1980–81, the budget projects an increase of 15.2 percent, including the effect of a 9 percent provider rate adjustment.

Table 15
Medi-Cal Expenditure Trends (All Funds)
For Health Care Services
(in millions)

Category of Service	*Actual 1975–76*	*Actual 1976–77*	*Actual 1977–78*	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*
Professional services	$485.5	$603.0	$707.8	$764.0	$866.2	$1,070.9
Prescription drugs	129.3	143.6	157.3	174.6	178.9	200.4
Hospital inpatient	677.9	837.7	1,008.5	1,083.5	1,249.9	1,416.4
Nursing homes and intermediate care	369.7	426.5	511.2	595.6	641.9	716.2
State hospitals	100.1	91.0	77.4	123.9	121.2	132.4
Other services	26.1	31.7	40.0	64.8	44.9	57.7
Prepaid health plans	90.6	70.2	60.9	58.6	73.3	96.2
Redwood Health Foundation	18.3	21.4	28.1	29.5	31.1	34.6
Dental services	78.1	99.5	121.3	124.2	124.2	143.0
Short-Doyle	35.1	83.2	91.6	89.6	92.1	98.5
Title XVIII B Buy-In	44.4	47.3	53.0	55.9	60.0	64.0
Child Health Disability Prevention	—	4.2	6.1	7.6	16.5	20.2
Adjustments	3.5	2.0	4.2	–.3	14.4	–2.7
Totals	$2,058.3	$2,461.5	$2,867.9	$3,171.6	$3,514.6	$4,048.0
Increase over prior year	11.5%	19.6%	16.5%	10.5%	10.8%	15.2%

Source: Governor's Budget.

Medi-Cal Surpluses

Table 16 compares budgeted expenditures to actual expenditures for 1978–79 and for the first four months of the current fiscal year. The table indicates that for 1978–79, expenditures were overestimated by 6.9 percent, resulting in a $133.9 million savings. As the table indicates, expenditures in most service categories were overestimated, with the largest overestimates occurring in county hospital inpatient and outpatient services. County outpatient expenditures were overestimated by $24.6 million General Fund, while county inpatient expenditures were overestimated by $45.6 million. Together, county inpatient and outpatient overestimates account for 52 percent of the $133.9 million savings.

The data on Table 16 also shows that in the current year, budgeted amounts exceed actual expenditures by 7.84 percent for the period July 1979 through December 1979. The budget estimates a current year savings of $129.5 million, which may be a conservative projection.

Table 16
General Fund Comparison of Budgeted to Actual Expenditures by Service Category

	1978–79 Year End Surplus (Deficit)	*Percent Surplus (Deficit)*	*1979–80 Year to Date[a] Surplus (Deficit)*	*Percent Surplus (Deficit)*
Physicians	$6,943,300	2.29%	$24,066,800	14.45%
Other Medical	6,966,200	9.81	4,138,600	11.23
Hospital Outpatient				
County	24,638,800	47.99	4,784,600	27.07
Community	7,218,200	9.01	1,108,800	3.02
Hospital Inpatient				
County	45,599,800	19.32	(688,600)	(0.70)
Community	18,640,700	3.50	4,411,500	1.60
Drugs	10,510,900	9.97	4,371,100	9.39
Nursing Homes	(7,801,200)	(2.97)	27,540,100	16.74
Intermediate Care Facilities	5,921,400	29.96	(2,312,700)	(22.60)
Home Health	179,600	9.86	919,500	50.75
Other Services	1,187,800	9.65	3,287,600	43.06
Medical Transportation	540,800	4.24	1,342,300	17.77
Child Health Disability	2,794,400	42.38	3,147,900	62.84
Prepaid Health Plans	3,225,500	9.91	1,210,100	6.13
Redwood	613,200	3.98	700,500	8.93
Dental	4,006,800	5.64	(1,168,400)	(3.52)
Medicare Premiums	(271,100)	(0.79)	2,719,500	15.07
State Hospitals	2,946,500	4.54	9,176,300	26.28
Totals	$133,861,600	6.94%	$76,625,900	7.84%

[a] Through December 1979. Total excludes $12,129,600 transferred to Item 261.5.

Table 17 shows that General Fund expenditures during the four most recent trimesters have been relatively stable. In fact, expenditures for the first third of this fiscal year were virtually the same as expenditures for the first third of 1978–79. In order for current year General Fund expenditures to reach the budgeted level, such expenditures will have to increase to an average of $677.5 million during the second and third trimesters of the current year. Given the relatively stable expenditure trend of the most recent 16 months, there is little indication that this will occur.

Table 17
General Fund Medi-Cal Expenditures by Trimester for Health Care (in millions)

Trimester	*1976–77*	*1977–78*	*1978–79*	*1979–80*
July–October	$394	$516	$599	$600
November–February	438	542	587	N/A
March–June	518	568	610	N/A
Totals	$1,350	$1,626	$1,796	

DEPARTMENT OF HEALTH SERVICES—Continued

May Estimates

We recommend that the fiscal subcommittees delay action on an appropriation for Item 287, pending receipt and review of the Medi-Cal expenditure estimates in May 1980.

The amount proposed for Item 287 is based on expenditure estimates prepared by the department. In May 1980, The Department of Finance will transmit revised expenditure estimates to the Legislature and submit a Budget Change Letter requesting adjustments in the appropriation for Item 287. We recommend that the fiscal subcommittees not take final action on this item until the May 1980 expenditure estimates are available and have been analyzed.

Range Estimates

We recommend the Department of Finance submit a mid, low and high estimate for Item 287 in May 1980 when the revised Medi-Cal expenditure estimates are available.

Projecting Medi-Cal expenditures with precision is extremely difficult. The estimates are subject to large errors (as occurred in 1978–79 and 1979–80) because they are based on an analysis of past trends and the trends are not stable enough to be reliable. In 1978–79 the number of persons who received service was very near the number who received service in the prior year. The key question regarding the budget estimates for health care service is will the number of persons receiving Medi-Cal service again begin to increase. Department analysts believe that overall utilization of service will increase and this expectation is reflected in the estimates.

Because Medi-Cal estimates are subject to large margins of error, we recommend that when the Department of Finance submits its revised Medi-Cal expenditure estimate to the Legislature in May it should also submit a high and a low range of estimates. The expenditure estimate would be similar to the approach the department uses to forecast revenue estimates when submitting such estimates to the Legislature. The Department should identify the assumptions and fiscal impact of each estimate.

Legislative Notification

We recommend that Budget Act language be adopted requiring the Department of Finance to notify the Legislature in advance when proposed Medi-Cal regulations or state plan amendments would increase General Fund cost by more than $500,000.

Control language in the 1979 Budget Act provides that no Medi-Cal rule or regulation which could result in increased cost may be scheduled for public hearing or become effective unless the Department of Finance determines that sufficient funds to cover the additional costs are available. The Budget Act, however, does not require that the Legislature be notified of proposed Medi-Cal regulations which would add to program costs. It would be appropriate for the Legislature to receive timely notification of major cost changes in the Medi-Cal program because of the long-term fiscal impact of such change.

Accordingly, we recommend that the following Budget Act language be added to Item 284:

"provided further that when a date for public hearing has been established for a change in Medical Assistance Program rule, regulation or the Department of Finance has approved a state plan amendment, the fiscal committees and the Joint Legislative Budget Committee shall be notified if the annual General Fund cost of the proposed change is estimated at $500,000 or more. In notifying the Legislature the Department of Finance shall include cost estimates and appropriate narrative material describing the amendments and the reasons necessitating the change. Such cost estimates shall indicate full and partial year cost, source of funds and projected costs in future years."

The recommended notification procedures will give the Legislature time to consider the proposed changes, and to recommend that the Department of Finance delay final approval should the change require further legislative consideration. This would result in improved legislative oversight of administrative decisions regarding the expenditure of Medi-Cal funds.

C. MEDI-CAL ELIGIBILITY DETERMINATIONS: ITEM 288

We recommend the Legislature delay action on an appropriation for Item 288, pending receipt and review of the May 1980 Medi-Cal estimates.

The budget proposes $96,297,122 from the General Fund for the state share of Medi-Cal eligibility determination costs, which is $7,568,601, or 8.5 percent, above the estimated current year expenditure. The appropriation includes funds for a 9 percent cost of living adjustment.

The amount proposed is based on expenditure estimates prepared by the department in December 1979. In April and May 1980 the estimates will be updated utilizing the latest available workload and expenditure data, and the amount requested in the item will be adjusted accordingly.

County Role and Cost Sharing

Counties determine the eligibility of MN and MI applicants for the program. The cost of the determinations is entirely reimbursed by state and federal funds. Eligibility determination costs for MN adult and children and MI children are split between the state and the federal government. The state, however, pays 100 percent of MI adult eligibility determination costs. As a result, the state's overall share of Medi-Cal eligibility determination costs for the MN and MI categories is approximately 67 percent and the federal share is 33 percent.

AFDC and SSI/SSP recipients automatically receive a Medi-Cal card when they become eligible for cash assistance. No part of the cost of determining their eligibility for welfare is charged to the Medi-Cal program.

Table 18 shows the total costs of county Medi-Cal eligibility administration since 1976–77.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 18
Expenditures for Medi-Cal
Eligibility Determinations

	State	*Federal*	*Total*	*Percent Increase Over Previous Year*
1976–77	$75,714,600	$32,264,019	$107,978,619	5.8
1977–78	86,647,500	36,922,747	123,570,247	14.4
1978–79	83,115,180	36,098,800	119,213,980	−9.2
1979–80 (Estimated)	88,728,521	41,438,400	130,128,045	9.2
1980–81 (Proposed)	96,297,122	46,444,429	142,741,551	9.6

The County Administrative Cost Control Plan

The Budget Act of 1975 required the department to develop and implement a plan to effectively control the growth in state and federal county administrative costs. This mandate has been included in each subsequent Budget Act.

Legislatively Mandated Change

As Table 19 indicates, there are substantial differences among counties in productivity per worker and in unit costs.

Table 19
Selected Workload and Cost Indications
Largest 10 Counties
1978–79

	Applications per Eligibility Worker	*Approved Cases per Eligibility Worker*	*Overhead Cost per $1.00 Eligibility Worker Cost*	*Total Cost per Workload Unit*
Contra Costa	69	320	$1.03	$10.47
Fresno	57	382	.79	7.70
Los Angeles	58	357	1.11	11.12
Orange	44	373	.83	9.25
Riverside	64	357	1.09	8.10
Sacramento	67	426	.61	6.99
San Bernardino	58	293	.74	8.07
San Diego	42	319	.77	10.12
San Francisco	63	312	1.15	11.36
Santa Clara	75	350	.80	8.06

In recognition of these differences, the Legislature adopted control language in the 1979 Budget Act which required the department to modify its county administrative cost control plan in the current year. The language required that more emphasis be placed on productivity per worker. Specifically, the Legislature required the department to (1) identify counties with low worker productivity or excessive overhead expenditures and (2) and reduce their allocations, in order to encourage them to improve productivity and reduce excess support costs. The department has completed a draft of the cost control plan which it proposes to implement beginning in 1980–81 (although the Budget Act required the modified plan to be implemented during the current fiscal year).

The Proposed Plan

The department proposes to determine each county's allocation based on productivity standards. Productivity standards have been proposed for the number of applications to be processed and for the number of approved cases to be maintained, per eligibility worker. In addition, minimum standards regarding (1) the number of workload units per clerical/administrative employee and (2) the number of supervisors per eligibility worker, would be established. The department's proposed standards would be based on the premise that each county's productivity should not be below the *average* for all counties with comparable recipient populations.

Under the current plan, the standards are much less demanding. A county can now operate at productivity levels which are 10 percent below average and face no reduction in its allocation. Moreover, if a county falls more than 10 percent below average and receives a reduced allocation, it is only required to come half way to the 10 percent tolerance band. The new plan requires the counties with reductions to improve to the group mean.

Under the department's proposed plan each county's allocation would be derived basically as follows: (a) estimates of gross workload would be prepared, (b) the number of workers needed to handle this workload would be determined using the average productivity standards or the county's actual productivity per worker in 1978–79, whichever is higher, (c) the number of allowable workers would be multiplied by the county's 1978–79 actual cost per worker, and (d) this amount would be adjusted upward for 1979–80 and 1980–81 cost of living increases.

The Fiscal Effect

The new plan will result in less money being allocated than under the current plan. Table 20 shows the county allocations under both the old and new plan.

If a county's allocation is less than its current allocation, it would have three choices under the proposed cost control plan: (1) the county could improve worker productivity so that it could operate within the reduced allocation; (2) it could continue to operate as it had in the past, using county funds to cover the additional cost; or (3) it could request a supplemental allocation from the state. A supplemental allocation could be granted if a county prepared a plan which outlines the steps to be taken by county management to reduce expenditures to targeted levels over a phase-in period.

Table 20 shows that for certain counties, the required productivity improvement would be quite large. It is probable that many counties will be unable to achieve the required productivity improvements within a single year. Such counties can be expected to apply for supplemental allocations in order to phase in productivity improvements without lay-offs.

Our analysis of the department's proposed plan indicates that it is reasonable. Since no county funds are now required for processing of Medi-Cal applications, it is appropriate for the state to establish realistic productivity improvements that can reduce state costs.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 20

Comparison of Existing and Proposed Allocations under Medi-Cal Administrative Cost Control Plan

	Current Plan Allocation	*Proposed Plan Allocation*	*Additional Reductions in Proposed Plan*
Alameda	N/A	N/A	—
Alpine	$4,300	$4,300	—
Amador	49,988	49,988	—
Butte	531,993	525,162	$6,831
Calaveras	68,091	68,091	—
Colusa	59,126	59,126	—
Contra Costa	2,779,699	2,479,932	299,767
Del Norte	63,525	63,525	—
El Dorado	301,429	297,286	—
Fresno	2,232,541	2,117,925	4,143
Glenn	74,169	74,169	—
Humboldt	590,270	575,966	14,304
Imperial	279,672	279,423	—
Inyo	60,127	60,127	—
Kern	2,082,759	1,629,869	452,890
Kings	316,714	271,192	45,522
Lake	187,914	177,579	10,335
Lassen	52,947	52,947	—
Los Angeles	40,912,206	32,889,627	8,022,579
Madera	183,510	162,333	21,177
Marin	790,290	596,042	194,238
Mariposa	43,197	43,197	—
Mendocino	472,569	459,350	13,219
Merced	688,187	520,486	147,701
Modoc	37,923	37,923	—
Mono	43,573	43,573	—
Monterey	791,166	787,176	3,990
Napa	356,145	352,729	3,416
Nevada	224,264	218,429	5,835
Orange	5,412,140	4,914,824	497,316
Placer	393,659	358,011	35,628
Plumas	53,665	53,655	—
Riverside	2,633,157	2,465,364	167,793
Sacramento	3,308,133	3,280,336	27,797
San Benito	90,848	90,848	—
San Bernardino	2,534,375	2,318,055	216,320
San Diego	7,261,043	6,114,745	1,146,298
San Francisco	5,606,890	4,743,127	863,763
San Joaquin	2,120,884	1,822,949	297,935
San Luis Obispo	674,409	622,739	51,670
San Mateo	1,779,594	1,661,412	118,182
Santa Barbara	1,178,208	1,066,775	111,433
Santa Clara	3,697,481	2,772,397	925,084
Santa Cruz	1,028,461	960,377	68,084
Shasta	463,719	441,312	22,407
Sierra	16,460	16,460	—
Siskiyou	134,163	129,090	5,073
Solano	527,578	508,991	18,587
Sonoma	1,054,966	1,014,816	40,150
Stanislaus	1,145,304	1,011,705	133,599
Sutter	270,815	251,219	19,596
Tehama	106,253	103,667	2,586

Trinity	38,952	38,952	—
Tulare	1,176,901	1,156,108	20,793
Tuolumne	113,520	109,323	4,197
Ventura	1,925,010	1,907,998	17,012
Yolo	393,410	356,145	37,265
Yuba	327,771	264,765	63,006

Los Angeles County Hospitals

Normally, county welfare departments process Medi-Cal applications. A few county hospitals, however, employ personnel to take Medi-Cal applications. The cost of the employees is charged to the Medi-Cal program through welfare department cost claims. One county, Los Angeles, operates a dual Medi-Cal eligibility system. One is operated by the county welfare department, the other by the county hospital system. Both submit independent administrative expense claims to the department.

County governments place Medi-Cal eligibility personnel in county hospitals in order to identify and enroll patients who are eligible for Medi-Cal. In this way a county is able to charge the cost of more patient care to the state and federal governments and avoid paying these costs from county funds.

The Eligibility Branch of the department has recently been reviewing the costs associated with the processing of Medi-Cal applications at county hospitals. Table 21 compares the cost of taking an application in the Los Angeles County hospital system to the cost in other county hospitals with Medi-Cal eligibility personnel.

Table 21

Medi-Cal Program

Cost of Processing Medi-Cal Eligibility Applications at Selected County Hospitals

1978–79

County	
Los Angeles	$399
San Diego	120
Orange	107
Santa Clara	117
Alameda	108
Sacramento	38

The cost of processing Medi-Cal eligibility applications in Los Angeles County hospitals is excessive from two different standpoints:

- First, Los Angeles County hospitals' eligibility cost per application far exceeds the cost at other county hospitals.
- Secondly, Los Angeles County hospitals' eligibility cost per application of $399 is substantially higher than the cost per application—$58—incurred by Los Angeles County's welfare department.

The Los Angeles County hospitals are the only county hospitals which have been excluded from the county administrative cost control plan. Other counties with hospital eligibility units are subject to overall cost control constraints.

The Los Angeles County hospital system billed the Medi-Cal program between $9 million and $10 million annually in recent years for hospital

DEPARTMENT OF HEALTH SERVICES—Continued

eligibility personnel and related operating costs. The department's estimate for 1979–80, however, is $7 million. The department is unaware of operational changes in Los Angeles which would reduce expenditures to that level in the current year. As a result, this estimate appears to be low.

Department's Proposal

The department's proposal for 1980–81 limits the amount of reimbursement it will provide to Los Angeles, to $229 per application, plus a cost of living adjustment. The $229 amount was calculated by establishing an average cost per application for Los Angeles and the five other large counties with hospital eligibility personnel. After the average cost per application was determined, this amount was increased by 50 percent, resulting in a figure of $229. The department believes that the Los Angeles County hospital system should be able to operate its Medi-Cal eligibility function at a unit cost which is not more than 150 percent of the six-county average.

Fiscal Effect

If Los Angeles County were to continue to receive $399 per application, it would be allocated approximately $11.9 million ($399 × 29,910 applications = $11,934,090) in 1980–81. The department's proposal will reduce this amount to $7.6 million. Thus the department's proposal would result in a General Fund savings of approximately $2.9 million.

Alternative Recommendation

We recommend the Los Angeles County Hospital allocation be based on a reimbursement level of $147 per application, for savings of $1,654,537 to the General Fund and $798,083 in federal funds (Item 288).

Over time, we see no reason why Los Angeles County's costs should be significantly higher than those of the other counties that process Medi-Cal eligibility applications at their county hospitals. Nonetheless, it may be proper for Los Angeles County to be reimbursed at a higher rate than the other counties in the short term as the county brings its costs under control. Our analysis indicates, however, that the department's proposal would, in effect, reimburse the county at a rate that is 134 percent higher than the average reimbursement for the other five counties (even though the proposed rate is 150 percent of the average of all six counties). We believe such a differential is excessive, and therefore recommend that the Los Angeles County cost per application not exceed 150 percent of the average cost for the counties shown on Table 21, *excluding Los Angeles County.* The average cost of those five counties is $98 per application. One hundred and fifty percent of that amount is $147 per application, or $82 less per application than the department's figure. This would permit a savings of $2,452,620, of which the state share would be $1,654,537.

Special County Projects

We recommend deletion of three special projects, for a savings of $1,725,149 to the General Fund and $1,137,725 in federal funds (Item 288.)

The budget proposes funds for three projects administered by county welfare departments. Table 22 shows the proposed 1980–81 funding for these projects.

Table 22
1980–81 Special County Projects

	General Fund	*Total Funds*
Social Security Number Clean Up	$1,665,149	$2,462,874
PHP Enrollment Notification	25,000	50,000
Medi-Cal Eligibility Data System	35,000	350,000
Totals	$1,725,149	$2,862,874

Control language in the 1979 Budget Act requires the department to prepare justification material for any county projects that it proposes to support. However, no budget justification has been presented to support the request. Consequently, we have no basis on which to evaluate the projects, and recommend that funding for them be deleted.

D. Fiscal Intermediary Services: Item 289

We recommend the Legislature delay action on an appropriation for Item 289, pending receipt of the May 1980 Medi-Cal expenditure estimates.

The budget proposes an appropriation of $15,309,700 for fiscal intermediary services, which is a decrease of $12,677,905, or 45 percent, below estimated current year expenditures.

The amount proposed is based on expenditure estimates prepared by the department in December 1979. During May 1980, the estimates will be updated utilizing the latest available workload and expenditure data, and the amount requested in the item will be adjusted accordingly.

Contract With Computer Sciences Corporation

On September 1, 1978, the state signed a five and one-half year contract with Computer Sciences Corporation (CSC) to process billings which pharmacies, nursing homes, hospitals, doctors and other providers submit for payment under the Medi-Cal program. Since that date, CSC has been involved in the design, implementation and phased-in operation of the claims processing system. CSC is now processing pharmacy, nursing home and hospital claims. On March 1, 1980, it is scheduled to start processing physician and all remaining provider claims. Table 23 shows estimated current and budget year General Fund expenditures for fiscal intermediary services.

Table 23
Fiscal Intermediary Contract Costs: Item 289
General Fund

	1979–80		*1980–81*	
	General Fund	*Total (All Funds)*	*General Fund*	*Total (All Funds)*
Computer Sciences Corporation (CSC)	$12,409,600	$27,058,300	$12,068,200	$36,500,800
Medi-Cal Intermediary Operations (MIO)	15,379,905	42,465,400	1,014,000	1,860,500
Medicare Cross-Over Claims	148,100	750,000	1,327,500	3,000,000
New Dental Contract	–0–	–0–	900,000	9,000,000
Totals	$27,987,605	$70,273,700	$15,309,700	$50,361,300

DEPARTMENT OF HEALTH SERVICES—Continued

CSC received $10,605,500 (all funds) in 1978–79 for design, development and installation activities. It will receive an estimated $27,058,300 in 1979–80. Most of this amount will be expended for claims processing activities. Approximately $5.8 million of the total will be the final payment for design, development, and installation costs. CSC is scheduled to receive an estimated $36,500,800 in 1980–81 to process Medi-Cal claims. This will be the first year that CSC is scheduled to process all incoming claims for the entire year. The $36,500,800 for 1980–81 is 20.8 percent below the $46,091,943 provided to MIO during 1978–79—its last full year of claims processing activity.

Deficiency Bill

The current year appropriation for CSC was based on the assumption that the new claims processing system would meet all federal requirements during 1979–80 and therefore would qualify for 75 percent, rather than 50 percent, federal matching funds. The system, however, will not be federally certified in 1979–80. Therefore, the Department of Finance anticipates that a deficiency appropriation of $4,210,005 will be required for the current fiscal year. At the same time, the department believes that 75 percent federal fiscal participation will be retroactively available for operational costs which occurred in the 1979–80 period once the system is certified.

Medicare Cross-Over Claims

The budget proposes $3,000,000 ($1,327,500 General Fund) in 1980–81 to design and operate a system to process Medicare cross-over claims. This amount is in addition to the $750,000 ($148,000 General Fund) estimated to be expended in 1979–80. Cross-over claims are claims for patients eligible for both Medicare and Medi-Cal. Under the new claims processing system, Medicare and Medi-Cal portions of cross-over claims will be processed by different firms.

The department is working to ensure that an automated information transfer process will be operational by March 1, 1980 when physician and other noninstitutional provider claims are scheduled to be assumed by CSC. The information transfer between firms allows providers to submit only one claim for patients covered by both Medi-Cal and Medicare, and will avoid long delays in payment of bills.

Proof of Eligibility Labels

The administration proposes to continue requiring providers to attach Medi-Cal proof-of-eligibility (POE) labels when they submit their claims. Currently, claims without labels are being paid. Therefore a change order will be processed requiring CSC to verify the presence of a valid label before paying a claim. The budget indicates that CSC will receive $893,000 ($495,600 General Fund) in 1980–81 for the additional work related to POE labels. This amount may be revised, because negotiations have not been concluded.

Other Change Orders

The proposed budget also contains $500,000 ($162,500 General Fund) for possible additional change orders in 1980–81, although no specific change orders (other than the POE label change order) are now contemplated. Under most circumstances we would recommend the deletion of these funds. However, because unique problems may arise in the transition to the new fiscal intermediary, the department should have the resources available to purchase additional service from CSC should such service be required in a timely manner.

Dental Contract

The budget proposes that $9 million ($900,000 General Fund) be appropriated for the design, development and installation of a new Medi-Cal dental claims processing system. The budget also proposes continuation of seven limited term positions for a period of one year to proceed with the department's plan to release a final request for proposals (RFP) in late June or early July. Three months later, firms interested in competitively bidding for the dental contract will submit their proposals. In January 1981, the department hopes to complete its review of the various proposals and select a contractor.

The current contractor for dental services is California Dental Services (CDS) which has been processing claims on a pilot project basis. The four year period allowable for pilot projects has expired, and CDS is now operating on six month waiver extensions. The federal government is authorizing the six month contract extensions because the state is in the process of developing a competitive bid process. Should the federal government refuse to extend the waiver, the state could lose federal matching funds for dental services amounting to $65 million annually.

The department's plan is to issue an RFP which calls on interested firms to bid not only on claims processing but also on the assumption of some risk for the cost of dental services through a monthly rate per eligible. However, the department's dental RFP has been delayed. A major reason for the delay is a disagreement between the department and the Department of Corporations over whether provisions of the Knox-Keene Act should be waived. The act requires that bidders which do not have subcontracts with the 14,000 participating dentists to have four months, rather than two months, of payments in reserve. This four month reserve requirement approximates $48 million. The department believes that a reserve requirement of this magnitude would discourage competition in the bid process.

It appears that the department has three basic options with regard to the RFP. One is to delay the RFP while continuing to seek a waiver from the Department of Corporations. Another option is to eliminate the capitation feature, and instead ask firms to submit proposals only for the claims processing function. In this way all interested firms could bid. The final option is to abandon the request for a waiver and accept limited competition in the bidding process.

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E. CHILD HEALTH AND DISABILITY PREVENTION: ITEM 290

We recommend approval.

The Child Health and Disability Prevention (CHDP) program provides medical screening services to Medi-Cal eligible children under age 21 and non Medi-Cal eligible children six years and under whose family income falls below 200 percent of the Aid to Families with Dependent Children income standard. Screening services for Medi-Cal eligible children are mandated under the federal Early, Periodic Screening, Diagnosis and Treatment (EPSDT) program. Non Medi-Cal eligible children six years of age and under are served under a state program established by Chapter 1069, Statutes of 1973.

The CHDP program is administered by county health and welfare departments, which provide outreach, preventive health education, screening, followup, provider recruitment and recordkeeping. Providers of screening services include local health departments, school districts, and private physicians. The department provides overall program direction and funding.

Participation of Schools in EPSDT Program

The EPSDT program is the federally mandated portion of California's CHDP program. EPSDT services are offered to all Medi-Cal eligible children under the age of 21, and include outreach, medical screening, diagnosis, treatment and followup.

In a report issued in September 1979, HEW criticized California's program because only 14 percent of Medi-Cal eligibles participated during 1977–78.

Our analysis indicates that participation could be improved by involving schools in both outreach and screening activities. County promotion of the program could be more effective if coordinated with the schools because most of the EPSDT eligible population attend school. Schools could also improve participation by providing screening services directly. For this reason, we suggest that the CHDP field staff work with counties to expand involvement of school districts in the screening and outreach portions of the program.

Proposed Budget for the CHDP Program

The budget proposes $16,207,697 (total funds) in Item 290 for local assistance including provider rate increases. This is an increase of $1,406,958, or 11.9 percent, over estimated current year expenditures. General Fund expenditures are proposed in the amount of $8,544,403, an increase of 9 percent, over estimated current year expenditures.

Item 290 has three components: (1) screening costs for non Medi-Cal eligible children (screening for Medi-Cal eligible children is provided through Item 287) (2) allocations for local administrative costs, and (3) the supplemental EPSDT program. The screening cost portion of Item 290 is proposed in the amount of $3,998,055 (this excludes a nine percent provider rate increase budgeted in Item 287). This is a 1 percent increase over estimated current year expenditures, and is based on an estimated

92,500 screens. The local administrative allocation portion of Item 290 is proposed in the amount of $10,209,642. This is a 12.3 percent increase over estimated current year expenditures. The remainder of Item 290 is the supplemental EPSDT program which is fully federally funded. Under this program counties may supplement the program by using their own funds to obtain federal matching funds. The budget proposes $2 million for this program, a 14.3 percent increase over estimated current year expenditures.

F. PROVIDER RATE INCREASES: ITEM 291

The budget proposes $80,386,399 from the General Fund for a 9 percent provider rate increase. When added to the $64,979,100 in federal matching funds, this results in a total of $145,365,499 for provider rate increases. Of this amount, 97 percent ($76,244,575) would be allocated to the Medi-Cal program. Table 24 shows the estimated distribution of funds, by program, for 1980–81.

Table 24
Estimated Distribution of Providers Rate Increases by Program [a]
1980–81

Medi-Cal	$141,223,475
California Children Services	1,274,138
Child Health Disability Prevention	359,825
Family Planning	2,325,604
Genetically Handicapped Persons Program	182,257
Total	$145,365,449

[a] Excludes 13.8 percent rate increase for Medi-Cal hospital inpatient costs. Funds for hospital inpatient increase ($105,695,000 General Fund) are contained in Item 287.

Different Approaches to Rate Increases

The administration and the Legislature approached the issue of provider rate increases in different ways during the deliberations on the 1979 Budget Bill. The budget as introduced proposed a fund for provider rate increases equivalent to six percent. In April 1979, the department proposed that specific provider categories be increased by varying percentages ranging from zero to 35.7 percent.

The Legislature increased the funds to provide an average 10.5 percent increase for providers with all providers to receive at least an eight percent increase. Several provider categories were specified for increases from 12.5 to 69.7 percent. The Governor subsequently reduced the amount to the department's original proposal.

Subsequent to implementation of the administration's rate increase, the Legislature enacted Chapter 1197, Statutes of 1979 (AB 275) which provided that all provider categories receive a minimum increase of three percent. The minimum three percent provision added $11.9 million in rate increases to the $56.1 million made available by the 1979 Budget Act. Table 25 shows the rate increases which were ultimately provided.

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Table 25
Medi-Cal Service Providers
1979–80 Rate Increases

	1979 Budget Act	*Additional Increases of AB 275*
1. Physicians		
a. Primary care office visits	12.5%	—
b. Maternity care services	35.7	—
c. All other physicians services	—	3.0%
2. Clinical Laboratories	—	3.0
3. Optometrists	—	3.0
4. Eye Appliances	—	3.0
5. Psychologists	—	3.0
6. Podiatrists	—	3.0
7. Physical Therapists	34.2	—
8. Speech Therapist/Audiologist	21.2	—
9. Prosthetic/Orthotic	—	3.0
10. Nurse Anesthetist	—	3.0
11. Community Rehabilitation Centers	34.2	—
12. Free and Community Clinics	6.0	—
13. Hospital Outpatient		
a. Room fee	28.0	—
b. Other	—	3.0
14. Pharmacy Dispensing fees	—	3.0
15. Nursing Homes	5.8	—
16. Home Health Agencies	6.0	—
17. Transportation		
a. Ambulances	6.0	—
b. Non-Emergency carriers	17.1	—
18. Portable X-Ray	—	3.0
19. Hearing Aids	14.3	—
20. Occupational Therapy	34.2	—
21. Durable Medical Equipment	19.7	—
22. Dental	—	3.0
23. Adult Day Health Care Centers	6.0	—
24. Child Health Disability Prevention		
a. Primary care	12.5	—
b. Other services	—	3.0
25. Redwood Foundation	6.0	—
26. Prepaid Health Plans	15.2	—

Major Rate Increase Considerations

Many considerations influence decisions on provider rate increases. Four general considerations which have influenced past decisions are (1) cost, (2) equity between providers, (3) past rate increases and (4) special problems which require resolution.

1. *Cost Considerations.* Rate increases for the major provider categories are costly. Approximately one third of the funds necessary to provide any percentage increase to all providers would go to nursing homes while approximately 27 percent would be necessary for physicians. The five major providers would consume 85 percent of such an increase. The substantial cost of an across the board increase has, in the past, led the administration to consider different percentage increases for individual provider categories. Table 26 shows the General Fund cost for a one percent increase for each provider category.

Table 26
Cost by Provider Category for
a 1 Percent Rate Increase
1980–81

	General Fund Cost of a 1 Percent Increase in Rates	*Percentage Distribution of the Cost of a 1 Percent Rate Increase*
A. Major Cost Providers		
1. Nursing Homes	$3,012,300	35.4%
2. Physicians	2,315,659	27.2
3. Dentists	715,300	8.4
4. Pharmacists-Dispensing Fees	364,000	4.3
5. Hospital Outpatient		
a. Room fees	467,894	5.5
b. Physicians services	412,806	4.8
Subtotal	$7,287,959	85.6%
B. Mid-Range Cost Providers		
1. Clinical Labs	$158,237	1.8%
2. Eye Appliances	120,586	1.4
3. Organized Outpatient Clinics	87,736	1.0
4. Medical Transportation		
a. Ambulances	56,185	.7
b. Other carriers	43,515	.5
5. Optometrists	89,265	1.0
6. Psychologists	46,812	.5
7. Podiatrists	42,544	.5
Subtotal	$644,880	7.6%
C. Low Range Cost Providers		
1. Prosthetic and Orthotic Suppliers	$28,217	.3
2. Hearing Aid Suppliers	19,735	.2
3. Durable Medical Equipment Suppliers	18,934	.2
4. Speech Therapists/Audiologists	18,751	.2
5. Chiropractors	11,893	.1
6. Nurse Anesthetists	1,170	.01
7. Home Health Agencies	16,300	.2
8. Community Rehabilitation Centers	3,812	.04
9. Physical and Occupational Therapy	4,976	.06
10. Independent Rehabilitative Facilities	1,331	.01
11. Surgical Clinics	11,515	.1
12. Other	13,377	.1
Subtotal	$147,011	1.7%
D. Special Categories		
1. Adult Day Health Care Centers	$29,409	.3
2. Child Health Disability Prevention	59,741	.7
3. Prepaid Health Plans	252,000	3.0
4. Redwood Foundation	90,600	1.0
Subtotal	$431,750	5.1%
Total	$8,511,600	100%

2. *Equity Between Providers.* The percentage of usual and customary charges paid by Medi-Cal varies considerably between provider categories. Some providers are reimbursed at levels near their normal charges, while others receive a lower percentage of their normal charges. These variations have caused some to question the equity of the provider rate

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structure. In the past consideration has sometimes been given to the idea of reducing these differences through differential rate increases. Table 27 shows the percentage of billed charges paid by the Medi-Cal program, by provider category.

Table 27
Percentage of Usual and Customary Billing
Paid Under the Medi-Cal Program's Maximum Allowable Charges

Provider Category	*Percent*
A. Major Cost Providers	
1. Nursing Homes	Not applicable
2. Physicians	Ranges from 35 to 75 by procedure
3. Dentists	Averages 55 to 75 according to department
4. Pharmacist-Dispensing fees	95 according to department
5. Hospital Outpatient	
a. Room fees	55
b. Physician's services	55
B. Mid-Range Cost Providers	
1. Clinical Labs	Unknown
2. Eye Appliances	60
3. Intermediate Care Facilities	Not applicable
4. Medical Transportation	
a. Ambulances	70
b. Other carriers	70
5. Optometrists	75
6. Psychologists	50
7. Podiatrists	50 to 60
Subtotal	
C. Low Range Cost Providers	
1. Home Health Agencies	75
2. Prosthetic and Orthotic Suppliers	75
3. Free and Community Clinics	80
4. Hearing Aid Suppliers	60
5. Durable Medical Equipment Suppliers	65
6. Speech Therapists/Audiologists	50
7. Chiropractors	55 to 60
8. Nurse Anesthetists	55 to 60
D. Special Categories	
1. Adult Day Health Care Centers	Not applicable
2. Child Health Disability Prevention	Not applicable
3. Prepaid Health Plans	Not applicable
4. Redwood Foundation	Not applicable

3. *History of Rate Increases.* Some providers have, over a period of time, received larger increases than other providers. The history of past increases may influence the size of the increase warranted for 1980–81. Table 28 shows the history of rate increases, by provider category, since 1972–73.

Table 28
Percentage Increases in
Provider Rates by Category
1972–73 to 1979–80
Medi-Cal Program

	1972–73	*1973–74*	*1974–75*	*1975–76*	*1976–77*	*1977–78*	*1978–79*	*1979–80*
A. Major Cost Providers								
1. Physicians								
a. Primary Care	2.5				20			12.5
b. Maternity Care	2.5				30			35.7
c. Anesthesia	2.5				65			3
d. All Other	2.5				9.5			3
2. Nursing Homes	0	11	0	12.8	15.2	6	14.3	5.8
3. Dentists	2.5				18	6	0	3
4. Pharmacists-Dispensing Fees	5			11.5	13	0	0	3
5. Hospital Outpatient Depts.								
a. Room Fees	2.5				6	6	11.6	28
b. Physician Services					42.8	0	0	12.5
B. Other Providers								
1. Clinical Labs	2.5				6	6	0	3
2. Chiropractors	2.5				6	6	0	3
3. Durable Medical Equipment	2.5				6	6	0	19.7
4. Eye Appliances	2.5		16.8	50.3	6	6	0	3
5. Free and Community Clinics							25	6
6. Hearing Aides	2.5				6	6	0	14.3
7. Home Health Agencies	5		37		6	23	0	6
8. Intermediate Care Facilities				9.9	15	6	14.8	5.8
9. Medical Transportation								
a. Ambulances	2.5		13.8		6	22	0	6
b. Other Carriers	2.5		13.8		6	6		17.1
10. Nurse Anesthetists					65.0			3
11. Occupational Therapy	2.5			9.5	6	6	0	34.2
12. Optometry	2.5			30	6	6		3
13. Orthodontia	2.5				28.6	6		3
14. Physical Therapy	2.5			9.5	6	6		34.2
15. Podiatrists	2.5				9.5			3
16. Prosthetic and Orthotic Supplies	2.5		20		6	37.4		3
17. Psychology	2.5				6	6		3
18. Speech Therapy/Audiology				9.5	6	6		21.2
C. Special Categories								
1. Adult Day Health Care Centers							6.5	6
2. Child Health Disability Prevention Program					50		12	
3. Prepaid Health Plans								11
4. Redwood Foundation								6

4. *Special Problems.* Sometimes the Medi-Cal rate for a particular provider category is believed to be too low to assure Medi-Cal participants sufficient access to a needed service. Where this is the case a large "equity adjustment" may be required if Medi-Cal patients are to have sufficient access to the particular service. These special problems are identified in rate studies which the department periodically conducts.

Submission of a Departmental Plan

We recommend the department submit to the Legislature a detailed provider rate increase proposal with supporting documents, by April 1, 1980.

The budget proposes a nine percent across-the-board increase, in the amount of $80,386,399, for provider rate increases. An across-the-board

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increase (six percent) was also proposed in the 1979–80 Governor's Budget, but it was subsequently modified to reflect differential provider rate increases.

As we noted in the *Analysis of the 1979–80 Budget Bill*, the Legislature should have by April 1 the department's rate increase plan if it is to have an adequate opportunity to consider and act on the plan. For this reason, we again recommend the department prepare and submit a rate increase plan by April 1, 1980.

Although the department's 1979 rate increase plan was a significant improvement over earlier submissions, more support material is necessary to facilitate legislative review, especially in regard to large "equity increase" proposals.

Nursing Home Rate Increases

Each state is required by P.L. 92-603 to secure federal approval for a plan outlining the methodology to be used for determining nursing home rate increases. The plan must identify rate increases which are necessary to assure that nursing home monthly rates are reasonably cost related.

The state plan outlining this methodology had not been approved by the federal government when the 1979 Budget Act was approved. Not knowing the specific amount that would be required under the approved plan, the administration requested and the Legislature approved funds for a 6 percent increase in nursing home rates in the 1979–80 budget. The actual nursing home rate increases provided under the approved state plan averaged 5.8 percent.

Prior to the adoption of the state plan, there were no differential regional rates paid to providers. Under the new rate-setting approach, increases for nursing homes are basically determined by audits of past operating costs. Once the average cost per patient day is determined, the figure is adjusted for future inflation and audit disallowances. The calculations are made for each nursing home audited and average rates are determined for each of the four regions and the two-bed size categories. Table 29 shows the variation in the current patient day rates according to nursing home size and region.

Table 29
Nursing Home Rates
Amounts Paid per Patient Per Day[a]
(Effective August 1, 1979)

	Small Facilities (1–59 beds)		*Large Facilities (60 or more beds)*	
Regions	*New Rate*	*Percent Increase Over Old Rate*	*New Rate*	*Percent Increase Over Old Rate*
Los Angeles	$31.74	5.4%	$29.49	4.8%
San Francisco	32.38	7.5	31.24	11.0
San Diego	30.99	2.9	29.72	5.6
Balance of State	31.09	3.2	29.86	6.1

[a] Rates do not include the January 1980 increase.

The department has a certain degree of flexibility in determining the size of the inflationary adjustment for nursing homes. It can use the California Consumer Price Index, the U.S. Producer's Price Index or "recent historical cost trends in the industry". The first rate increase provided under the new state plan utilized the Consumer Price Index.

Role of Legislature

Because P.L. 92-603 required the use of an audit-oriented, formula approach to rate setting for nursing homes, it places most of the decision making authority for rate increases with the state department and HEW which must find the plan acceptable prior to approving it. Thus, the role of the Legislature does not appear to be as great in establishing nursing home rates as it is in establishing rates for other provider categories. In the normal provider category, the Legislature can choose not to furnish a rate increase. In the case of nursing homes, however, the state plan mandated by P.L. 92-603 requires annual adjustment to the rates. In this respect, nursing homes have an advantage over other providers in the Medi-Cal program because annual adjustments are directly related to inflation as measured by a selected index.

The department estimates that, under the state plan, nursing home rate increases could range from 10 percent to 13 percent. The high estimate (13 percent) assumes that the state will again use the consumer price index as the basis for determining the required inflation adjustment. If this estimate is correct *approximately one-half of the $76,244,575 General Fund propose for Medi-Cal rate increases would be devoted to nursing homes and intermediate care facilities.* In contrast a nine percent nursing home increase would require $27,110,000, or 35.5 percent, of the $76,244,575. Assuming nursing homes consume one-half of the available funds the remaining $38 million would provide an average increase of approximately 7 percent to other providers. The low range estimate of 10 percent assumes the department will be able to identify recent historical cost trends in the industry which justify the provision of a smaller increase. Currently no data is available in regard to such cost trends. If a 10 percent increase is provided to nursing homes the cost would be $30,123,000, or 39.5 percent, of the available funds.

Physicians

Physician fees under the Medi-Cal program have not been adjusted for inflation on a consistent basis. Table 30 summarizes the recent history of physician rate increases.

Table 30
Medi-Cal Physician Rate Increases[a]
1972–73 to 1979–80

	1972–73	*1976–77*	*1979–80*
Primary Care—Office Visits	2.5%	20.0%	12.5%
Maternity Care Services	2.5	30.0	35.7
Anesthesia Services	2.5	65.0	3.0
All Other Procedures	2.5	9.5	3.0
Average	2.5%	19.7%	7.8%

[a] No physician rate increases provided in fiscal years 1973–74, 1974–75, 1975–76, 1977–78, and 1978–79.

At this time physicians receive less for treating Medi-Cal patients than they receive for private pay patients or patients covered under other third party payment programs.

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Table 31 compares fees paid by various other third party payors for some common procedures.

Table 31
Limited Comparison of Medi-Cal Physicians Rates with Rates Paid by Other Third Party Payors

	Average Charge to Medi-Cal	*Medi-Cal Maximum*	*Medicare*	*Cal Western Life (L.A. Area)*
Initial Brief Office Visit	$23.00	$13.80	$20.00	$29.20
Initial Comprehensive Office Visit	59.00	48.30	60.00	86.62
Routine Brief Office Visit	14.00	8.28	13.57	17.32
Routine Hospital Visit	17.00	8.28	18.00	19.30
Reductions of Fracture (femur)	1,246.00	643.00	1,289.00	1,554.00
Appendectomy	577.00	278.00	473.00	664.00

Source: January 1979 departmental report on Effects of Uniform Physician Reimbursement Method in the Medi-Cal Program.

In a report released in January 1979, the department indicated that Medi-Cal physician rates increased 22.5 percent from 1969 to 1978. According to the department's report, a physician's cost of doing business (office space, equipment, receptionists and nurses salaries, etc.) increased by 88 percent during this period.

Acceptance of Medi-Cal Patients

Currently, most Medi-Cal patients are treated by a relatively small percentage of physicians. Table 32 shows the distribution of Medi-Cal caseload among physicians. As the table shows, approximately 65 percent of Medi-Cal patients receive services from 15 percent of those providers who regularly bill Medi-Cal. In contrast, the majority of physicians who bill the Medi-Cal programs (about 60 percent) have few Medi-Cal patients.

Table 32
Distribution of Physician Providers Serving Medi-Cal Patients in Each Month [a]

	Providers		*Medi-Cal Patients*	*Average Number of Patients per Provider*
1. Very Large Medi-Cal Caseloads	6.1%	serve	42.3%	207
2. Large Medi-Cal Caseload	8.7	serve	21.5	75
3. Moderate Medi-Cal Caseload	24.8	serve	24.6	30
4. Low Medi-Cal Caseload	60.4	serve	11.6	6
	100.0%		100.0%	

[a] Providers can be either a group practice or a single practitioner.
Note: This table does not include physicians who had no Medi-Cal billings in the time period sampled. In any one month about one half of the physicians in California submit no Medi-Cal billings.

It is widely assumed that Medi-Cal recipients have more difficulty than other persons in finding physicians who will accept them as patients. Consequently, it is also assumed that Medi-Cal recipients rely more heavily on county and community outpatient departments (including emergency rooms) for the physician's services than other groups. The extent to which Medi-Cal recipients have problems with access to physicians, however, has not been well documented.

The Effect of Rate Increases on Access

It is often argued that physicians—particularly those in urban areas whose practices are geographically near large concentrations of Medi-Cal recipients—would accept more Medi-Cal patients if Medi-Cal rates were higher. Past experience with physicians' rate increases, however, does not offer much evidence to support this view.

Chapter 1207, Statutes of 1976 (AB 4242), provided the last major rate increases for physicians (September 1976). Chapter 1207 provided an average increase of 9.5 percent for all physician services except for (1) primary care office visits, which were increased by 20 percent and (2) maternity services which were increased by 30 percent. Table 33 compares the number of physicians, by specialty, who treated Medi-Cal patients immediately before and after the 1976 rate increases. Overall there was very little change in participation patterns in the year after the rate increases were provided. While the number of obstetrics/gynecology physicians increased, the number of general or primary care physicians declined by 9.3 percent, despite the fact that a 20 percent rate increase was provided for primary care office visits in order to increase accessibility.

Table 33
Number of Providers Treating Medi-Cal Patients—By Provider Specialty—1976 and 1977

Provider Specialty	*1976*[a]	*1977*[b]	*Percent Change 1976–1977*
1. General Practice and Family Practice	5,667	5,140	−9.3%
2. Obstetrics/Gynecology	1,559	1,606	+3.0
3. Pediatrics	1,137	1,153	+1.4
4. Internal Medicine	2,723	2,826	+3.8
5. Other Surgical	5,836	5,883	+0.8
6. Other Medical	3,499	3,922	+12.1
Totals	20,421	20,530	+0.5%

[a] January 1976 to June 1976, which was prior to the implementation date of Chapter 1207 in September 1976.

[b] January 1977 to June 1977. Three to nine months after implementation of Chapter 1207 rate increases.

Thus, the limited data which exists does not indicate that the supply of physicians services available to Medi-Cal recipients expanded to a significant degree in response to the relatively large rate increases provided by Chapter 1207.

Obstetrical Fee Increase

The department's December 1979 estimates indicate that physician fees for obstetrical services will soon be increased by 22.4 percent. The fee for care during pregnancy (including the delivery) would be increased from \$407.12 to \$498.32. The fee for a delivery only would be increased from \$203.56 to \$249.16. The cost of this fee increase would be approximately

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$11,300,000 ($6,585,000 General Fund). No date however, has been set for public hearing regarding the proposal.

The department is proposing additional increases in the obstetrical fees paid by the Medi-Cal program because (1) these fees are substantially below usual charges to the general public and (2) there are indications that Medi-Cal recipients have had difficulty in obtaining obstetrical services in some areas. The increase in fees are to be funded from the money available from the decrease in abortion fee reimbursements discussed earlier.

Emergency Room Physicians

Currently, routine physicians services performed in a hospital emergency room are reimbursed at 80 percent of the amount that would be paid if the same procedure were performed in a physician's office. One reason emergency room rates are reimbursed at the 80 percent level is that, whereas a private office physician incurs costs for overhead (nurses, receptionists, etc), an emergency room physician does not have these expenses. These expenses, instead, are incurred by the hospital. To cover these costs, the Medi-Cal program pays the hospital a "room rate" for each emergency room patient intended to cover the cost of nurses, receptionists, equipment, facilities and other overhead associated with the operation of the emergency room. This room rate is in addition to the fee paid to the emergency room physician. The private office physician does not receive a room fee to cover office overhead. Instead, reimbursement for the private office physician's overhead is included as part of the fee. The emergency room physicians have proposed a 25 percent increase in their Medi-Cal fees for the past three year.

Emergency room physicians state that, although they do not have expenses for nurses, facilities, equipment and other emergency room operating costs, they nevertheless have high overhead expenses. They maintain that malpractice insurance costs, bad debts, and billing and collection costs are so high that their actual overhead costs meet or exceed those of physicians who operate private offices.

Currently, reliable data is not available which would permit comparison of gross charges, gross revenues, operating expenses and net income before taxes of emergency room physicians and physicians who operate private offices. The department is currently undertaking a study of the economics of emergency room practice which is to be completed by July 1, 1980.

In analyzing the earlier requests for rate increases made by emergency room physicians, we have reached these conclusions:

1. There is no evidence that the Medi-Cal fees policy produces an inadequate supply of emergency rooms or emergency room physicians. Approximately two thirds of the state's hospitals have emergency rooms. In fact, the widespread availability of emergency rooms not only result in better care of those persons requiring emergency medical treatment; it may also encourage patients to inappropriately use emergency rooms for routine, non-emergency medical services. We see no need or justification for the

state as a prudent buyer to pay substantially more than necessary to acquire emergency room services for Medi-Cal recipients.

2. Other types of physicians who treat patients in hospital outpatient departments are generally paid at 80 percent of the rate that would be paid if the procedure were performed in a private physician's office. Any justification for an increase to emergency room physicians fees would also be applicable to other hospital outpatient physicians. In May, 1979 the department estimated that the cost of increasing all outpatient physicians' billings to the level of office based physicians would be $9,713,500 ($5,737,500 General Fund). The cost of such an increase for emergency room physician only would be $1,843,750 ($1,069,000 General Fund). We believe it would be prudent to know more about the economics of emergency practice prior to granting a large rate increase to emergency room physicians.

Pharmacy Fees

Currently approximately 5,000 pharmacies participate in the Medi-Cal program. The degree to which Medi-Cal pharmacy business is distributed among participating pharmacies is unknown. In 1978–79, pharmaceutical services were provided to approximately 2.5 million beneficiaries at a cost of $174.9 million. Over 600 drugs appear on the department's "formulary" and can be prescribed without prior authorization. Prescriptions of nonformulary drugs require the department's prior authorization.

Pharmacies are reimbursed for serving Medi-Cal participants in two ways. They receive: (1) a fee to cover the cost of the drug and (2) a dispensing fee. Drug costs are usually reimbursed at the manufacturer's wholesale price, although the maximum prices for some multi-source drugs are established by the HEW. The Medi-Cal program currently pays pharmacists a dispensing fee of $3.15 per prescription. Table 34 shows historical Medi-Cal dispensing fees adjustments.

Table 34
Medi-Cal Program
Increases in Pharmacist's Dispensing Fees[a]

	Percent Increase
1972–73	5.0%
1975–76	11.5
1976–77	13.0
1979–80	3.0

[a] No dispensing fee increase provided in fiscal years 1973–74, 1974–75, and 1978–79.

The $3.15 fee paid by the Medi-Cal program is among the highest paid by any state Medicaid program. A 9 percent increase in pharmacy dispensing fees would cost approximately $3.1 million from the General Fund.

G. DEPARTMENTAL MEDI-CAL OPERATIONS: ITEM 284

The Medi-Cal program is administered primarily by the Medical Care Standards, Medi-Cal, and Audits and Investigations Divisions. Most policy development functions are performed in the Medical Care Standards Di-

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vision, while most daily operations functions are performed in the Medi-Cal Division. The Audits and Investigations Division is responsible for audits, quality assurance monitoring and numerous anti-fraud and abuse activities. Table 35 shows the major organizational units within the program.

Table 35
Major Medi-Cal Program Units and Positions

	Number of Positions	
	Authorized 1979–80	*Proposed 1980–81*
Audits and Investigation Division		
a. Audits Section	209.0	215.0
b. Investigations Section	47.4	69.9
c. Surveillance and Utilization Review (SUR)	119.1	137.8
d. Medi-Cal Quality Control Section	38.9	40.0
e. Prepaid Health Plan Quality Evaluation Branch	21.1	24.0
Medical Care Standards Division		
a. Eligiblity Branch	84.1	88.4
b. Benefits Branch	37.1	40.6
c. Child Health and Disability Prevention Branch	100.1	95.8
d. Rate Development Branch	24.5	30.0
e. Prepaid Health Plan Branch	41.9	43.1
Medi-Cal Division		
a. Field Services Section	450.2	500
b. Health Recovery Section	179.7	184.8
c. Fiscal Intermediary Mgt. Branch	119.9	114.4
d. Alternative Health Systems Office	13.4	15
Totals	1,464.5	1,598.8

Medi-Cal program operations within the department will account for approximately 54 percent of the proposed 1980–81 operating cost of $138,-279,643. The budget proposes expenditures of $74,323,142 all funds ($32,-044,718 General Fund) for administration of the department's Medi-Cal program operations, which is an increase of $11,169,228, or 17.7 percent, over the estimated current year expenditures. The General Fund amount is $4,800,828, or 17.6 percent, over estimated current year expenditures.

Field Services Branch

The department currently operates a program to review and approve in advance nonemergency admissions to hospitals and nursing homes. Purchase of certain other services and equipment, such as hearing aids, prosthetic and orthotic devices, must also be approved in advance. The reviews are conducted by the medical personnel of the department's Field Services Branch with assistance from clerical and administrative staff. The branch has 12 offices located throughout the state. Providers submit their requests on a form called the Treatment Authorization Request (TAR).

The department recently studied the cost effectiveness of the TAR system. The study was based on an analysis of 8,930 randomly sampled

TAR's. The results, which are displayed on Table 36, show that reviews of a hospital inpatient TARs costs on the average $11.18 and produce a cost avoidance of $115.74 per TAR. The department estimates the net savings resulting from prior review of hospital admissions is approximately $16.3 million annually. Review and prior authorization of other non-hospital services costs, on the average, $8.18 per TAR while savings average $27.81. The overall savings from prior review of nonhospital services is $12.7 million annually. Currently about six percent of hospital requests and 12.4 percent of requests for other services are denied or modified.

Table 36
Estimated Savings and Cost-Benefit Ratios Related to Medi-Cal Prior Authorizations
Based on data sampled in June and October 1978

Service Category	*Annual TARs Processed*	*Average Cost Per TAR*	*Total Net Savings Per TAR*	*Projected Annual Savings*	*Cost-Benefit Ratio*
A. Medical					
Physician Office Visit	26,204	$8.18	$24.45	$640,683	3:1
Assistive Devise	93,820	8.18	32.65	3,063,223	4:1
Prosthetic Orthotic	54,196	8.18	33.43	1,811,772	4:1
Hearing Services	24,464	8.18	32.27	789,453	4:1
Psychiatry	36,968	8.18	91.45	3,380,724	11:1
Phys., Speech, Occ. Therapy	41,484	8.18	23.14	959,940	3:1
Home Health	17,956	8.18	No Data	No Data	No Data
Dialysis	1,336	8.18	No Data	No Data	No Data
Transportation	163,340	8.18	11.84	1,933,946	1.15:1
Other	740	8.18	143.73	106,360	18.5:1
Medical Subtotals	460,508	8.18	27.81	12,686,106	
B. Hospital Admissions	173,068	11.18	115.74	16,300,000	8.4:1
Totals	633,576			$28,986,106	

High Vacancy Rate

The department deleted 33.8 positions related to the processing of treatment authorization requests as part of the reductions made pursuant to control Section 27.2, Budget Act of 1978. The Legislature restored the 33.8 positions to the 1979–80 support budget, but they were subsequently vetoed by the Governor.

Despite the Section 27.2 reduction, however, the Field Services Branch has a high vacancy rate. Of the 374.7 currently authorized positions, 42.7 (11.4 percent) were vacant as of December 21, 1979.

As a result of the position reductions and the high vacancy rate, there is an insufficient number of employees in the field offices to process treatment authorization requests in a timely manner. Currently, an average of 19 days is required to process a TAR. In Redding, Sacramento, San Diego, and Oakland it takes 30 days or longer. The large backlog of treatment authorization requests creates several problems:

1. Nurses in the Field Services Branch are often diverted from requests for extensions of hospital stays to other less cost beneficial reviews.

2. Requests are approved without adequate review, thereby causing the state to pay for some unneeded services.

DEPARTMENT OF HEALTH SERVICES—Continued

3. The provision of needed medical services and equipment is delayed.

Unmet Needs

We recommend the department and the Department of Finance jointly review areas of deficiency in the current system of prior authorization and if appropriate submit budget proposals to rectify deficiencies.

Our analysis indicates that the current system of prior authorization has several deficiencies that allow unwarranted medical services to be provided to recipients. These deficiencies include:

1. The current system does not attempt to control unnecessary hospital ancillary services (laboratory work, x-rays, drugs, etc.) and there is little evidence that these service charges are being reviewed effectively in the payment system. Approximately 48 percent of the $1,249,945,500 estimated current year expenditure for hospital inpatient services will be for ancillary services.

2. The current prior authorization system cannot control abuse of "emergency" hospital admissions. Presently a physician can avoid program review and prior authorization if the patient is admitted to a hospital and discharged within a three-day period.

3. For many medical services, there is no system to verify the patient's actual condition as described on the TAR.

4. There are no field office files on providers who appear to have abused the program in the past. Files are kept only on patients. As a result, the treatment authorization requests submitted by such providers may not always be identified for careful review.

5. Currently, virtually no use is being made of computer services or automated equipment in processing the large volumes of treatment authorization requests. Manual processing of the paperwork may be both more costly and less effective than is necessary.

Professional Standards Review Organizations

We recommend a reduction of contract funds for Professional Standards Review Organizations for a savings of $1,159,695 from the General Fund in Item 284.

The budget proposes an expenditure of $1,859,656 from the General Fund for Professional Standards Review Organization (PSRO) contracts.

Federal law (P.L. 92-603) mandates the existence of PSROs. The purpose of a PSRO is to review hospital services provided to Medicare and Medicaid patients. The reviews are done to insure that the treatment provided was medically necessary and that the length of stay in the hospital fitted the circumstances of the case.

The way in which PSROs judge the appropriateness of treatment varies. Some use detailed medical manuals to set general standards of good treatment. Others allow individual reviewers to use their own judgment on a case-by-case basis. Some PSROs delegate their review function to hospitals, while other PSROs do all of the case reviews with their own staff. The federal government has stated that the state must sign memorandums of understanding (MOUs) with PSROs so that Medi-Cal cases will be reviewed by PSROs along with Medicare cases.

In the past, the state has proceeded slowly in signing MOUs because the effectiveness of the PSRO system appears to be less than the effectiveness of the state's prior authorization system. Available data indicate that PSROs spend $1.00 to deny $1.10 of unnecessary hospital service. Studies of the state's prior authorization system indicate that $8.40 of unnecessary hospital services are avoided for each dollar spent on administration. The department is reluctant to sign more PSRO memorandums of understanding while doubts about PSRO effectiveness persist. Unfortunately, the federal government has been unwilling to do a comparative study of the two systems. Expenditures in 1978–79 and 1979–80 have been well below budgeted amounts because the state has not entered into as many PSRO contracts as it anticipated. In 1978–79, $1,737,996 was appropriated for this purpose, but only $931,778 was expended. Based on discussions with departmental staff it appears that it will cost approximately $700,000 in the current and budget years to fund the existing 12 PSRO contracts. Accordingly, we recommend the contracts with the PSROs be funded at the current year level of $700,000, for a savings of $1,159,695 to the General Fund.

Transferred Positions

We recommend the deletion of 30 positions transferred from the Department of Developmental Services to the department, for a General Fund savings of $244,290 and a savings of $530,371 in federal funds (Item 284).

The budget proposes the transfer of 30 positions from the Department of Developmental Services to the Field Services Section of the Department of Health Services. The department has not formally identified the proposed functions of the 18 nurse coordinator and 12 clerical positions. Because there is no information regarding the utilization of the transferred positions or potential workload we recommend the position and funds be deleted.

Investigations Section

The Investigations Section reviews complaints of alleged fraud and abuse by recipients and providers. Currently, the section has 32 investigators and 9.5 support positions. Offices are located in San Francisco, Los Angeles, Santa Ana and Fresno.

Table 37 shows complaints-on-hand and average monthly production for the section in the current year. At current rates of production, the section has seven to eight months of complaints which have not been given a preliminary screening. Based on a preliminary screening, eighty to eighty five percent of the complaints will be closed and will require no further investigation by the section, because evidence would not support prosecution or suspension. The remainder, about 80 cases a month, will ultimately be investigated.

Due to the backlog in the section as well as workload backlogs in other participating agencies, such as the Attorney General's Office, approximately three years is required to fully complete an investigation and suspend a provider in a non-criminal case. The time requirements are as follows:

DEPARTMENT OF HEALTH SERVICES—Continued

- 8 months required for screening;
- 14 months for investigation and report writing;
- 1 month to review the case report;
- 6 months for Department of Justice to prepare formal changes;
- 7 months awaiting a calendar date and hearing in Office of Administrative Hearings;
- 1 month to prepare proposed decision on the case;
- 1 month to review and approve the decision.

Table 37
Average Monthly Workload Data[a]
Investigations Section—Medi-Cal Program

	Complaints Against Providers	*Complaints Against Recipients*	*Monthly Total*
1. Complaints on hand	1,137	2,377	3,514
2. Preliminary investigations completed			
a. Referred to Attorney General	6	N/A	6
b. Closed—no further action	131	237	368
c. Kept for full investigation	19	60	79
Monthly Average	156	297	453
3. Completed full investigations			
a. Recovery of Medi-Cal funds demanded	3	35	38
b. Criminal prosecution undertaken	1	4	5
c. Suspension hearing initiated	2	N/A	2
d. Warning letters issued	5	5	10
e. Verbal reprimand issued	5	1	6
f. Allegation unconfirmed	13	11	24
Monthly Average	29	56	85

[a] Monthly averages based on July to November 1979 activity reports.

Recoveries

As a result of completed investigations, the department is currently issuing approximately 38 letters a month demanding repayment of funds wrongfully obtained from the Medi-Cal program. Over 90 percent of the repayment demands go to recipients. If current trends continue, approximately $1.3 million in repayments will be ordered during the current year. Of this amount, the department estimates it will be able to collect approximately 30 percent, or $390,000. (This amount does not include provider repayments which are accomplished through subsequent provider billing adjustments.)

Prosecution and Suspensions

Of the investigations completed by the department, approximately 10 cases per year will result in criminal prosecution of a provider and 24 providers will face suspension hearings. In addition, approximately 55 recipients will be prosecuted for criminal acts. Most providers will be convicted of billing the program for services which were not delivered. Most recipients will be convicted for obtaining medical services by presenting false eligibility determination information.

Requested New Positions

We recommend the deletion of six proposed positions proposed for the centralized screening unit, for a General Fund savings of $70,716 in Item 284 and a $57,858 savings in federal funds.

The department proposes to establish a unit with 18 new positions to screen complaints in Sacramento. Currently, approximately four weeks is required to obtain the payment information needed for complaint screening from the fiscal intermediary. Payment information, however, can be made available immediately by using computerized display screens linked to the new fiscal intermediary's claims payment data files. The department believes that total screening time per complaint can be reduced from eight to four weeks.

Several benefits could result from a centralized unit: 1. Cases could be assigned for field investigation in a timely manner, thus avoiding many problems with witness recall and loss of relevant documents. 2. The time of the field investigators could be fully devoted to investigations, thereby increasing the number of criminal prosecutions and suspension hearings, and the amount of recoveries. Currently approximately one half of an investigators time is spent on screening activities.

The department proposes 18 new positions for the screening unit. This is based on a projected backlog of 8,000 complaints as of July 1, 1980, and an incoming volume of approximately 1,000 complaints per month. The department assumes each investigator can process one complaint every two hours or 84 complaints per month.

Our analysis concludes that, based on workload actually received during the current year, it is unlikely that incoming complaint volumes will exceed 800 complaints per month. Furthermore, there is no evidence that the backlog will increase to 8,000. The total backlog now stands at approximately 3,500 complaints and does not appear to be growing as anticipated. For 1980–81, we assume there will be 800 incoming complaints to process per month and a backlog of 4,000 complaints.

Under our workload assumptions, there would be 6,200 fewer complaints to screen in 1980–81 or 520 fewer complaints per month. On this basis, we recommend approval of 12 positions and the deletion of six positions, for a savings of $128,574 ($70,716 General Fund).

Rate Setting

We recommend approval.

The budget proposes $512,956 ($252,920 General Fund) for 11 new positions in the Rate Development Branch. Four positions would be used for the development of capitated rates for prepaid health plans and pilot projects, and seven positions would be used to develop and operate a system to control growth of hospital inpatient expenditures.

Capitated Rate-Setting

The department has completed the initial data collection system and methodology establishing rates for Prepaid Health Plans (PHPs). The development work was completed using positions which were federally funded. The PHP rates established for the current year were calculated using a newly developed actuarial methodology required by state law.

DEPARTMENT OF HEALTH SERVICES—Continued

Most of the work involved in developing the rates was done by the federally funded positions and the PHP Quality Evaluation Branch. The department proposes to transfer rate setting for PHPs and capitated pilot projects to the Rate Development Branch for ongoing application. In part, this responsibility is being transferred to the Rate Development Branch because the federally funded positions are terminating. The budget proposes an actuary, two analysts and a clerical support position. The work involves analysis of PHP fiscal and utilization data, analysis of PHP rate proposals, verification of data and related tasks.

Hospital Cost Control

The budget proposes that seven of the eleven new Rate Development Branch positions be utilized for the development and operation of a system to reduce growth of hospital inpatient costs. Although the department has not yet released the details of its hospital cost control system we are familiar with the general approach of the system. It will attempt to place maximum growth limits on particular cost centers within hospitals. Computerized data from the Health Facilities Commission and from the Medi-Cal paid claims tapes will be used to determine individual hospital growth limits. The department proposes to utilize an economist as project director as well as an Accounting System Analyst familiar with hospital claims and cost reports and a Programmer Analyst to produce the required data processing reports. Three additional analyst positions would be used to review the data and work with hospitals and other entities to assure data accuracy. One clerical support position is also proposed for support of the hospital cost control unit.

Amendments to P.L. 92-603 permitting states to develop their own standards for determining reasonable cost of inpatient hospital care became effective in July 1972. In March 1975, the department requested HEW approval for a proposed change in the state plan for hospital inpatient reimbursement. A 10 percent growth limitation was proposed and, with HEW's approval, was implemented in 1975–76. Subsequently, a law suit was filed by the California Hospital Association (CHA vs. Obledo). In October 1976, the U.S. District Court enjoined the department from applying any set percentage limit on hospital reimbursement increases. Almost three years later, in August 1979, the Ninth Circuit Court of Appeals overturned that portion of the trial court's decision which held that any state plan amendment which imposes a set percentage limit is invalid. Since that time, the department has attempted to develop a hospital cost control plan which eliminates the methodological shortcomings of the earlier plan and therefore results in a plan which is capable of withstanding legal challenge. The department has prepared its proposal which is now undergoing Health and Welfare Agency and Department of Finance review. During the budget hearings the department should be prepared to describe its hospital cost containment methodology and present estimates of anticipated savings.

The Fiscal Intermediary Management Branch

We recommend approval.

Previously a total of 29 positions performed systems design and testing activities associated with conversion to the new fiscal intermediary and monitoring the MIO contract. The budget proposes to redirect the 29 positions to monitoring the new fiscal intermediary contract. We recommend approval of the redirection of staff within the branch for the following reasons:

1. It is the state's responsibility to insure that the prepayment controls used by the fiscal intermediary are sufficient to result in the rejection or modification of inappropriate billings. In the past, state staff did not always fully understand the procedures of the claim's processing system, or the medical policy governing payment of claims. Under the new contract, staff must fully understand the cross-checking edits and audits occurring within the computers and what policies govern the adjudication of questionable claims.

2. If the state is to benefit from several new provisions in the CSC contract, additional areas must be monitored, including identification of "at risk" errors made by the contractor, application of penalties for nonperformance, identification of systems improvements from which the state is to benefit and careful negotiation of contract change orders.

3. The state owns the recently developed claims processing system. At the end of the contract period, the state may wish to operate the system if it cannot retain enough control over the process through a contract arrangement or if other problems develop. State operations would not be a real option unless the state has enough technical involvement with the process to manage it.

MEDS Project

We recommend deletion of $614,679 from the General Fund and $1,276,641 in federal funds from Item 284(b), operating expenses and equipment, related to purchase and rental of equipment.

The budget proposes continuation of 15 limited term positions in the Fiscal Intermediary Management Branch to complete a state-county data processing project. The aim of the project is to improve the reliability of the computerized file of persons who are eligible for Medi-Cal. This project, known as the Medi-Cal Eligibility Data System (MEDS) project, has a proposed budget of $2,614,763 ($830,187 General Fund). Included in the MEDS budget is $1,891,320 ($614,679 General Fund) for rent and purchase of telephone lines, terminals, and other equipment needed by the state and counties to begin implementation of the new system.

All staffing requirements and appropriate funding level for the MEDS project have not been determined. The budget indicates that implementation progress will be reviewed in the Spring of 1980, and that savings resulting from the project will be identified. We recommend that the $1,891,320 proposed for purchase and rental of equipment be deleted. Timetables and costs related to equipment acquisition should be updated and the Data Systems Branch staffing requirements and costs related to the project should be specified when the project is reviewed in the spring.

DEPARTMENT OF HEALTH SERVICES—Continued

We further suggest that a detailed 1980–81 expenditure plan for the MEDS project be prepared and submitted by April 1, 1980. The expenditure plan should identify specific county welfare department staff increases and staff reductions related to the project funded through Item 288. Program savings in Item 287 should be identified and estimating methodology specified. Because successful implementation of this project may affect the proof of eligibility label controversy and affect the cost of the CSC contract, the department should be required to fully inform the Legislature of project plans prior to action on an appropriation.

Medi-Cal Data Analysis

The budget proposes $469,195 ($50,204 General Fund) for a Medi-Cal data retrieval and analysis project, which is an increase of $30,695 or seven percent, over estimated current year expenditures.

In our *Analysis of the 1979 Budget Bill,* we recommend that the department expedite the development of a Medi-Cal program data retrieval and data analysis system. Specifically, we recommended that: (1) The tremendous volume of data contained on the Medi-Cal paid claims tapes be organized and consolidated into a data file that would permit rapid and economical access. (2) The department acquire a simple user oriented software system which would permit analysts working in various sections of the department to extract data on an as-needed basis to answer policy questions posed by the administration and the Legislature. The concept would be to acquire a software system which permits persons who are not trained programmers to extract data. This would be done in order to avoid dependence on the data processing section which has a large backlog of projects and cannot routinely produce special requests in a timely manner.

On March 15, 1979, the Department of Finance submitted a budget amendment letter proposing $438,500 ($46,925 General Fund) to be expended in 1979–80 to develop a medical data management system. The Legislature approved the request.

The project's implementation has been slow. Originally, the work was going to be done by a consultant, but the department is now reconsidering this option and may perform the task with department personnel. It is unclear (a) how the department plans to approach the development of a Medi-Cal management information system, (b) what the project will cost, and (c) whether the project will include needed software improvements and staff training. The department should be prepared to discuss such questions during budget hearings regarding the data retrieval and analysis.

3. ADMINISTRATIVE SERVICES AND TECHNICAL BUDGET ISSUES

A. ADMINISTRATIVE SERVICES

The administrative functions of the department are conducted by the director's office, the Office of Policy Planning and Enforcement and the Administration Division.

The budget proposes a total of $34,080,274 for administrative activities, which is an increase of $4,778,658, or 16.3 percent, over estimated current year expenditures of $29,301,616. Of the $34,080,274 proposed for administrative services $28,076,211 is distributed to the public health and Medi-Cal program components on a pro rata basis. The balance of $6,004,063 is directly distributed to individual programs receiving identifiable administrative services.

B. TECHNICAL BUDGET ISSUES

Salary Savings

We recommend the 1980–81 budget contain an 8 percent salary savings requirement, for a savings of $1,281,597 General Fund and $1,198,754 in federal and other funds in Item 284.

When budgeting for salaries and wages, agencies normally recognize that salary levels will fluctuate and that all positions will not be filled for a full 12 months. Experience shows that savings will accrue due to the following factors: vacant positions, leaves of absences, turnover, delays in the filling of positions, and the refilling of positions at the minimum step of the salary range. Therefore, to prevent overbudgeting, an estimate of salary savings is included in each budget as a percentage reduction in the gross salary and wage amount.

Our analysis of the department's performance in filling authorized positions in the prior and current years indicates that the budget does not make adequate allowance for salary savings during 1980–81.

In 1978–79, an average of 595 positions (16.1 percent) remained vacant out of a total of 3,684.7 available positions. At the close of the year, there were almost 200 more vacancies than required by budgeted salary savings and Section 27.2, 1978 Budget Act. Excess salary and benefit savings totaled $2,128,903.

When the current year budget was adopted the department's salary savings requirements were reduced from $7,742,839 in 1978–79 to $5,506,656 for 1979–80. This was done in anticipation that the department would not operate with the same high vacancy rate that it was experiencing in 1978–79. The department's high vacancy rate, however, does not appear to have changed materially in the current fiscal year. The Controller's Office has provided us with payroll data that reflects very stable position totals for the department through November 1979. Our analysis indicates that the current year salary savings requirement is not responsible for the high vacancy rate. The current year vacancy pattern appears to be caused by other factors such as the hiring freeze or personnel system constraints. If the vacancy rate pattern of 1978–79 repeats itself the department will finish this fiscal year with an average employee count of approximately 3,100, rather than the 3,357.4 employees assumed in the budget. If this occurs, as much as $4,000,000 in additional salary and benefit savings beyond those currently being estimated would result. Table 38 shows available salaries and benefits for the department.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 38
Department of Health Services Salaries and Benefits

	Actual 1978–79	*Estimated 1979–80*	*Proposed 1980–81*
Scheduled Salaries	$63,237,449	$72,865,802	$76,898,014
Salary Savings Requirement	−4,299,616	−4,089,795	−4,239,686
Subtotal	$58,937,833	$68,776,007	$72,658,328
Employee Benefits	$15,814,273	$19,355,666	$21,592,436
Section 27.2 Reduction	−3,443,233	−2,252,991	—
Net Available	$71,308,873	$85,869,682	$94,250,764
Expended	$69,179,980	$81,800,000 (estimated)	NA
Additional Excess Savings after application of Salary Savings	$2,128,893	$4,069,682 (estimated)	NA

The amount for proposed salary savings in 1980–81 is $4,239,686, or 5.5 percent of scheduled salaries. The current year salary savings estimates total $6,351,786 or 8.7 percent of scheduled salaries. Our analysis indicates that the current year percentage understates probable salary savings. Given the past pattern of vacancy rates, we recommend that a vacancy rate of 8 percent of scheduled salaries be applied to the 1980–81 budget. This recommendation would result in additional savings of $2,480,351 ($1,-912,114 in salaries and $568,237 in benefits). The General Fund share of this reduction would be $1,281,597 with the balance being in federal and other funds.

Operating Expense and Equipment

We recommend a net reduction of $340,350 from the General Fund and $381,351 in federal and other funds, in Operating Expenses and Equipment.

We have reviewed the department's operating expenses and equipment (OEE) budget. Our analysis indicates that two categories of the OEE budget are overbudgeted and one category is underbudgeted. Table 39 shows the budget proposal, our estimate and the recommended change.

Table 39
Recommended Changes in the
Operating Expenses and Equipment Budget

	Budget Proposal	*Analyst's Estimate*	*Recommended Change*
Miscellaneous General Expense and Duplicating	$5,465,604	$4,437,671	$−1,027,933
Communications	6,403,409	6,034,632	−527,074
Legal Expenses	725,551	1,621,857	+896,306
Net Change			$658,701
State Share			×51.67%
Proposed General Fund Reduction			$340,350

Miscellaneous General Expense. Detailed budget schedules show that the budget proposes $5,465,604 for miscellaneous general expenses and duplicating expenses. The proposed amount is $2,227,690, or 68 percent, above 1978–79 actual expenditures. The expenditures cover basic office supplies, duplicating and small office equipment items.

We recommend the following method of calculating miscellaneous general expenses.

1. Increase actual 1978–79 expenditures for inflation, using the 12.7 percent increase for 1979–80 and 9.6 percent for 1980–81 anticipated by the department.

1978–79	$3,237,914	Actual
1979–80	3,645,891	Estimated
1980–81	3,995,897	Recommended

2. Add $441,774 for 243 new positions. This amounts to $1,818 per position, a figure developed by the department for general expenses per employees.

The resulting amount is $4,437,671 ($3,995,897 + $441,774), which is $1,027,333 below the amount proposed in the budget. This amount appears to make adequate allowance for the effect of inflation and new positions, and would result in a 37 percent increase over the amount actually expended in 1978–79.

Communications. The budget proposes $6,403,409 for communications which is a 21 percent increase over the amount actually expended in 1978–79. The primary components of communications are telephone expenses and postage. Postage rates are not scheduled to change and therefore no inflationary adjustment is appropriate in regard to postage. Telephone rates and other items can be anticipated to increase by 7 percent.

For communication expenses we believe it would be appropriate to increase 1978–79 base year expenditures (minus postage) by seven percent each year to compensate for inflation. The resulting figure for 1980–81 would be $5,671,000. In addition $205,335 should be budgeted for new employees (243 new positions × $845).

Legal Expenses. Billings from the Department of Justice were not forwarded by staff within the department to the Accounting Section, and as a result expenditure estimates for 1980–81 were substantially underestimated. The budget currently proposes $715,013 for legal expenses. However, detailed estimates from Department of Justice indicate $1,621,857 will be required for legal services. Therefore, we recommend an increase of $906,844 for legal services.

Health and Welfare Agency

DEPARTMENT OF DEVELOPMENTAL SERVICES

Items 295–297 and 299 from the General Fund and Item 298 from the Energy and Resources Fund — Budget p. HW 67

Requested 1980–81	$486,022,701
Estimated 1979–80	440,904,552
Actual 1978–79	364,105,076
Requested increase (excluding amount for salary increases) $45,118,149 (+10.2 percent)	
Total recommended reduction	$3,413,975

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
295	Department Support	General	$14,666,972
296	Hospital Support	General	—
297	Local Assistance	General	470,232,241
	Prior Balance Available Section 10.08, Budget Act of 1980		1,000,000
298	Local Assistance	Energy and Resources	80,050
299	Legislative Mandates	General	43,438
	Total		$486,022,701

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. *Price and provider rate increase. Reduce Item 297(b) (3) by $884,260.* Recommend deletion of funds for overbudgeting. 764
2. High-Risk Infant Follow-Up Projects. Recommend supplemental report language requiring the department to submit an evaluation of currently operating projects. 770
3. *Section 27.2 Restoration. Reduce Item 297 by $49,147.* Recommend deletion of overbudgeted funds. 775
4. Expenditure Reductions Due to Population Declines. Recommend supplemental report language requiring department to report on all cost categories affected by population declines. 776
5. *Psychiatric Technician Apprenticeship Projects. Reduce Item 297 by $1,016,497.* Recommend deletion of funds budgeted for new projects. 776
6. Automated Pharmacy Record Section. Recommend language requiring the department to submit a feasibility plan to the Joint Legislative Budget Committee. 778
7. *Administrative Positions. Reduce Item 297 by $246,390.* Recommend deletion of funds budgeted for positions prohibited by law. 779

8. *Medical Assistance Units. Reduce Item 297 by $1,116,231.* Recommend deletion of funds budgeted for support of the units. 780
9. *Special Repairs. Reduce Item 297 by $101,450.* Recommend deletion of funds budgeted for special repairs at Agnews. 781
10. Automated Uniform Accounting System. Withhold recommendation pending review of department progress report on implementation of a manual accounting system for regional centers. 782

GENERAL PROGRAM STATEMENT

The Department of Developmental Services administers the Lanterman Developmental Disabilities Services Act and provides services to persons with developmental disabilities. The Lanterman Act defines a developmental disability as a disability (a) originating before the age of 18, (b) expected to continue indefinitely, and (c) constituting a substantial handicap. Such disabilities may be attributable to mental retardation, cerebral palsy, epilepsy, autism, or to conditions closely related to mental retardation.

Department activities are carried out through the following four programs:

1. Community Services Program

The *Community Services Division* has the responsibility of developing, maintaining, and coordinating services for developmentally disabled persons residing in the community. The budget proposes that this division be reorganized effective July 1, 1980 for more effective administration of the following five program elements:

a. The *21 regional centers* are operated statewide by nonprofit corporations under contract with the department, and provide a variety of services including diagnosis, genetic and family counseling, development of individual program plans, advocacy, referral and placement in appropriate living arrangements, referral to nonresidential services, and monitoring of client progress.

b. The *Community Operations Branch* is responsible for negotiating and processing contracts between the department and the regional centers, establishing and implementing administrative regulations governing regional center operations, and setting rates for service providers.

c. The *Community Monitoring Branch* monitors regional centers for legal and contract compliance and the quality of the services provided.

d. The *Community Program Development Branch* utilizes the Program Development Fund which is a resource to expand the availability of community-based services. The branch also administers funds for the establishment of community living continuums.

e. The *Continuing Care Service Branch* provides protective living services for clients in out-of-home placement at the request of regional centers. These services, provided at 23 offices throughout the state, include needs assessment, individual program planning, services referral, and monitoring of client progress.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

2. Hospital Services Program

The department operates programs in nine of the state's eleven hospitals. Agnews, Fairview, Frank L. Lanterman, Porterville, and Sonoma Hospitals operate programs exclusively for the developmentally disabled, while Camarillo, Napa, Patton, and Stockton Hospitals operate programs for both the developmentally disabled and the mentally disabled through an interagency agreement with the Department of Mental Health.

3. Planning and Evaluation Program

This division provides a variety of services for the department, including program planning, policy analysis, and data base management.

4. Administrative Services Program

This program provides the services required to support the daily operation of the department.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an expenditure of $486,022,701 from the General Fund and the Energy and Resources Fund to support activities of the Department of Developmental Services in 1980–81, which is an increase of $45,118,149, or 10.2 percent, above estimated current year expenditures.

Total proposed program expenditures in 1980–81, including those financed with federal funds and reimbursements, are $602,560,623, which is $41,704,970, or 7.4 percent, above estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. Table 1 shows program expenditures and funding sources for the past, current, and budget years.

Table 1
Department of Developmental Services
State Operations and Local Assistance
1978–79 to 1980–81

Program	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*	*Percent Change*
1. Community Services				
State Operations[a]	$11,623,957	$12,824,318	$13,959,605	8.9%
Local Assistance	126,705,253	151,431,730	187,367,209	23.7
Subtotals	$138,329,210	$164,256,048	$201,326,814	22.6%
2. Hospital Services				
State Operations	5,637,071	7,511,329	5,308,626	−29.3
Local Assistance	339,439,075	386,714,045	393,120,439	1.7
Subtotals	$345,076,146	$394,225,374	$398,429,065	1.1%
3. Planning and Evaluation				
State Operations	484,109	2,330,793	2,761,306	18.5
4. Legislative Mandate				
Local Assistance	33,855	43,438	43,438	0
5. Administration				
State Operations	(4,111,516)	(5,999,223)	(7,394,399)	23.3
Totals	$483,923,320	$560,855,653	$602,560,623	7.4%
Reimbursements	−117,095,697	−117,618,506	−114,205,327	−2.9
Net Totals	$366,827,623	$443,237,147	$488,355,296	10.2%
General Fund	*364,105,076*	*440,904,552*	*485,942,651*	*10.2*
Federal funds	*1,179,621*	*712,195*	*712,195*	—
Program Development Fund	*1,542,926*	*1,620,400*	*1,620,400*	—
Energy Resources Fund	—	—	*80,050*	—

[a] Includes expenditures for Continuing Care Services.

Table 2 shows the adjustments to the current year budget proposed for 1980–81. These adjustments include $162,110 in support and $1,199,325 in local assistance to restore positions eliminated on a one-time basis during the current year pursuant to control Section 27.2 of the 1979 Budget Act.

Table 2
Department of Developmental Services
Proposed Budget, 1980–81

	Base	*Adjustments*	*Total*
1. Department Support			
A. Budget Base, 1979–80	$9,323,299		
Current Year Adjustments		$1,081,645	
B. Adjusted Budget Base, 1979–80	10,404,944		
Budget Year Adjustments		603,416	
Budget Change Proposals		3,658,612	
1980–81 Departmental Support			$14,666,972
2. Local Assistance			
A. Regional Centers			
1. Budget Base, 1979–80	143,876,717		
Current Year Adjustments		5,622,635	
2. Adjusted Budget Base, 1979–80	149,499,352		
Budget Year Adjustments		10,408,055	
Provider Rate Increase		23,167,000	
3. Gross Budget, 1980–81	183,074,407		
Transfer of Work Activity Program		−25,151,753	
4. Net Proposed Budget, 1980–81			157,922,654
B. State Hospitals			
1. Adjusted Budget Base, 1979–80	270,564,010		
Budget Year Adjustments		9,632,208	
Budget Change Proposals		5,653,532	
Population Adjustments		−7,646,833	
2. Gross Budget 1980–81	278,202,917		
Transfer from Energy and Resources Fund		−80,050	
3. Net Budget Proposal, 1980–81			278,122,867
C. Continuing Care Services			
1. Adjusted Budget Base, 1979–80	10,080,830		
Budget Year Adjustments		483,534	
Caseload Changes		−714,477	
Technical Adjustments		−2,487,322	
2. Proposed Budget, 1980–81			7,362,565
D. Other Programs			
1. High Risk Infant Follow-Up Project			1,006,010
2. Cultural Center for the Handicapped			63,685
3. Community Living Continuums			1,000,000
4. Work Activity Programs			25,754,460
5. Legislative Mandates			43,438
1980–81 Local Assistance			$471,275,679
Total, General Fund—Department Support and Local Assistance			485,942,651
Energy and Resources Fund			80,050
Total Proposed Expenditures			$486,022,701

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

1. COMMUNITY SERVICES PROGRAM

The budget proposes an expenditure of $201,326,814 for support of the community services program, which is an increase of $37,070,766, or 22.6 percent, above estimated current year expenditures.

REGIONAL CENTERS

The budget proposes a General Fund expenditure of $183,074,407 for support of regional centers, which is an increase of $33,575,055, or 22.5 percent, above estimated current year expenditures. This consists of (a) $62,718,574 for regional center operations, (b) $72,037,080 for purchase of services, (c) $25,151,753 for work activity programs (to be transferred to the Department of Rehabilitation pursuant to Chapter 1132, Statutes of 1979), and (d) $23,167,000 for price and provider rate increases, which would allow a nine percent increase for service providers and regional center employees.

The purchase of services budget consists of (a) $37,972,482 for out-of-home residential care (supplementing an estimated $73,497,780 in SSI/SSP payments), (b) $13,377,684 for day programs, (c) $3,238,428 for medical care, and (d) $17,448,486 for other services. Table 3 lists the major changes proposed in the budget.

Table 3
Regional Center Support
1980–81

	Base	*Adjustment*	*Total*
1. Operations			
Budget Base, 1979–80	$55,362,143		
Opt-out, current year cost		$762,635	
Adjusted Budget Base, 1979–80	$56,124,778		
Opt-out, full year cost		$863,218	
Increased caseload cost		$4,757,232[a]	
Merit salary adjustment		$973,346	
Budget, 1980–81			$62,718,574
2. Purchase of Services			
Budget Base, 1979–80	$88,514,574		
Unallocated community placements		$560,000	
Proposed current year deficiency		$4,300,000	
Adjusted Budget Base, 1979–80	$93,374,574		
Deficiency, full year cost		$500,000	
Increased caseload cost		$4,314,259	
Gross Total, 1980–81	$98,188,833		
Work activity program transfer		$−25,151,753[b]	
Extraordinary rate increase		$−1,000,000[c]	
Net Budget, 1980–81			$72,037,080
3. Price and Provider Rate Increase			$23,167,000
Total, Regional Centers, 1980–81			$157,922,654

[a] This amount also includes monies for four new positions in each regional center: a resource developer, a personnel officer, and education liaison officer, and a training officer, and $136,056 in unallocated CCSB increased caseload costs.

[b] Transferred to Department of Rehabilitation, Item 308(d).

[c] Transferred to Price and Provider Rate Increase.

Increased Caseload Costs

The department estimates that the 1980–81 end of year gross caseload for regional centers will be 73,706, which is a net increase of 1,229, or 1.7 percent, over the estimated current year caseload. The net increase consists of: (1) 9,168 new clients estimated to enter the regional center system in 1980–81, and (2) a reduction of 7,939 clients identified by the department as "inactive" cases. Table 4 shows the growth in the number of regional center clients over the past five years.

Table 4
Regional Center
Year End Caseload

	Actual 1975–76	*Actual 1976–77*	*Actual 1977–78*	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*
Regional Centers (Gross Caseload)	32,210	42,587	54,461	64,625	72,477	73,706[a]
Continuing Care Services Branch (CCSB)	8,116	8,458	9,311	10,076	8,803[b]	9,417[b]
Regional Centers (Net Caseload) [c]............	24,094	34,129	45,150	54,549	63,674	64,289

[a] The Governor's Budget proposes a caseload of 73,677. The figure shown here is based on more recent caseload estimate developed since the release of the Governor's Budget.
[b] Reflects 2,166 cases transferred to regional centers under opt-out.
[c] Regional center gross caseload less CCSB caseload. Regional centers are budgeted staff for state hospital clients but not for CCSB clients.

The budget provides funds to finance (1) the full year cost of new caseload added in the current year, and (2) the cost of the new caseload added in the budget year. The department estimates this amount to be $9,071,491, of which $4,757,232 is for increased regional center operating costs and $4,314,259 is for increased purchase of service costs.

The reliability of caseload data has been a continuing problem in the regional center program, particularly with regard to the number of "inactive" clients for which regional centers are receiving staff and operating expenses. In 1979, the department analyzed a sample of client records from each of the regional centers. It concluded that for approximately 20 percent of the clients which regional centers claimed as active clients, there was no documentation of activity since November 1977. The number of "inactive" clients varied considerably among regional centers—the proportion of total caseload found to be "inactive" by the department ranged from zero to 40 percent.

The proposed operating budgets for regional centers reflect the "deactivation" of 7,939 clients, based on the findings of the department's survey. No regional center, however, has had more than 20 percent of its existing caseload deactivitated for the budget year. Some of the regional centers, therefore, will continue to receive staff and operating expenses for clients the department considers "inactive". The department plans to make further adjustments to regional center operating budgets to assure that they receive support only for clients with documented records of recent activity, after it completes a thorough review of regional center clients' records in December 1980. These adjustments will be reflected in the 1981–82 budget.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Price and Provider Rate Increase

We recommend deletion of $884,260 from Item 297(b) (3) for overbudgeting of price and provider rate increases.

The budget proposes $23,167,000 for a 9 percent cost of living increase for regional center personal services, operating expenses, and service providers. Table 5 shows the components of this increase. The proposed rate increase consists of (a) $15,451,795 for regional center service providers, (b) $5,644,672 for increased personal services and operating costs in regional centers, (c) $1 million for extraordinary rate increases, and (d) $186,273 for cost of living increases for other local assistance items.

These amounts total $22,282,740. Our analysis indicates that the $23,167,000 proposed in the budget includes $884,260 for merit salary adjustments for regional center employees. An amount for merit salary adjustments, however, is also included in Item 297(b) (1) (Operations) and therefore is double budgeted. We recommend that Item 297(b) (3) be reduced by $884,260.

Table 5
Price and Provider Rate Increases

	Base, 1980–81	*9 Percent Cost of Living Increase*
1. Purchase of services:		
a. Out-of-home	$111,470,262	$10,032,324
b. Workshops	25,151,753	2,263,658
c. Day programs	13,377,684	1,203,992
d. Medical	3,238,428	291,459
e. Other	17,448,486	1,570,364
f. Extraordinary rate increase	1,000,000	90,000
Subtotals	$171,686,613	($15,451,795) [a]
2. Regional Center Operations:	$62,718,574	$5,644,672
3. High-Risk Infant Follow-Up Project	1,006,010	90,541
4. Community Living Continuums	1,000,000	90,000
5. Cal-Expo Cultural Center	63,685	5,732
6. Extraordinary rate increase (transferred from Item 297 (b) (2))	—	1,000,000
Total		$22,282,740
Amount Proposed		23,167,000
Amount Overbudgeted		$884,260

[a] Figures do not add due to rounding.

Transfer of Work Activity Program

Chapter 1132, Statutes of 1979, transferred the funding and administration of work activity programs from the regional centers to the Department of Rehabilitation. The transfer will be implemented by an interagency agreement currently being negotiated by the two departments.

The department estimates that 7,330 clients currently receive workshop services at a cost of $20,487,057, and that in 1980–81, 8,819 clients will receive these services at a cost of $25,151,753. This amount, plus an additional $602,707 for 27.5 program and administrative positions and operating expenses, are proposed for transfer to the Department of Rehabilitation in 1980–81.

Proposed Current Year Deficiency

The department is projecting a current year purchase of service deficiency of $4.3 million, which will be financed by a deficiency appropriation. The proposed deficiency consists of: (1) $3.8 million for regional center budget deficiencies, and (2) $500,000 for emergency and extraordinary rate increases, primarily for providers of transportation services who are experiencing unusually high cost increases. The full year cost of the extraordinary rate increase equals $1 million and is included in the proposed budget for 1980–81.

The proposed deficiency and the 1980–81 budget requirements are calculated on the assumption that rates paid to residential care providers in the current year are 6 percent above those paid in 1978–79. Some providers have actually been paid rates in the current year that are 8 percent above the 1978–79 rates.

On August 7, 1979, the department authorized a 2 percent across-the-board rate increase to 24-hour residential care providers, retroactive to July 1, 1979. This increase was to be financed with $3.6 million in previously unanticipated SSI/SSP reimbursements from the federal government. On September 18, 1979, the Director of Finance notified the Chairman of the Joint Legislative Budget Committee that the department intended to grant the rate increase. On October 18, 1979, the Chairman, on behalf of the committee, recommended to the Director of Finance that she refuse authorization of the rate increase on the grounds that (1) the increase had already been authorized by the department, in violation of Control Section 28, Budget Act of 1979, and (2) no information was provided to justify an increase for this particular group of providers but not for other providers.

On October 25, 1979, the Director of Finance disapproved the proposed rate increase. The department was directed to take steps necessary to recover excess payments made to providers since July 1, 1979. On January 4, 1980, the Chairman of the Joint Legislative Budget Committee requested the Director of Finance to rescind her directive that the department recover the excess payments made to providers because (1) doing so might have created an inequitable situation for providers, and (2) requiring repayment might have created a breach-of-contract situation between providers and regional centers. On January 25, 1980, the Director of Finance rescinded the portion of her directive to the department concerning the retroactive billing adjustments.

The department estimates that residential care providers may be allowed to retain up to $590,000 in excess reimbursements. Because the budget assumes that the full $3.6 million in federal funds would be available to meet regional center budget deficiencies, the estimated current year deficiency may have to be increased.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Growth in Regional Center Costs

The cost of the regional center program has increased rapidly in recent years. Since 1974–75, the cost of the program has risen from $37.4 million to $183.1 million in 1980–81. This is equivalent to an average annual growth rate of 30.3 percent. At this rate of growth, regional center costs more than doubled every three years.

Several factors have contributed to the program's growth:

1. The number of regional centers has increased from 19 in fiscal year 1974–75, to 21 in the current year (+11 percent).

2. The number of developmentally disabled persons receiving regional center services has increased from 32,210 in 1975–76 to 72,477 in the current year, which is equivalent to a mean annual growth rate of 22.5 percent. The increases have required comparable growth in the number of regional center case managers.

3. Purchase of services costs have grown faster than case management costs. In 1976–77, the purchase of services budget represented 49 percent of total regional center expenditures. In the current year, purchase of services represents 62.5 percent of total expenditures. Some of this increase is attributable to the placement of state hospital clients in community residential care facilities, which has been financed partially through the regional centers purchase of services budget.

4. Inflation has increased regional center personal services and operating expenses, as well as the rates paid to service providers.

Future Growth in Program Unknown

Our analysis indicates that, in the future, the cost of the regional center program will continue to increase more rapidly than prices, for the following reasons:

1. The department estimates that approximately 368,000 persons in California have developmental disabilities. Regional centers currently serve 72,477, or 19.7 percent, those estimated to be eligible for services. A projection of precisely how many new clients will enter the system in the future, cannot be made but the fact that regional centers now serve less than one-fifth of those estimated to be eligible indicates that future caseload growth may be significant.

2. The department's estimate of the number of individuals with developmental disabilities is based on the definition of a developmental disability established in the Lanterman Act. Under that definition, a person is eligible for regional center services if he or she suffers from mental retardation, autism, epilepsy, cerebral palsy, or other neurological disabilities similar to retardation *and* if these disabilities arose before the age of 18. If the state adopts the federal definition of a developmental disability established in P.L. 95-602, the number of eligible individuals may increase. Under the federal definition, a person has a developmental disability if he or she has a substantial disability in three or more of the following seven areas of life activity: self-care, learning, mobility, self-direction, capacity for independent living, economic sufficiency, and receptive and expressive language *and* if these disabilities arose before the age of 22. The

number of individuals eligible under the federal definition who are not eligible under the state definition is currently unknown. However, the new federal definition would not only increase the number of persons eligible by virtue of extending the age limit from 18 to 22 years of age, but may extend eligibility to persons with *physical* as well as mental disabilities.

3. As the number of developmentally disabled persons now residing in state hospitals declines, expenditures for community placements will increase. The population of the developmental disabilities programs in state hospitals has decreased from 9,585 on June 30, 1977, to an estimated 8,552 on June 30, 1980.

4. As the department's Continuing Care Services Branch is phased out of operation, regional centers will assume case management services for the 8,803 individuals currently served at a cost of $10,080,830.

Department Control Over Regional Center Operations

On May 11, 1979, the Attorney General issued an opinion (No. 79-307) concluding that "the Department of Developmental Services has no general authority to control the operations of community regional centers through contract provisions negotiated under Welfare and Institutions Code Sections 4620–4636; specific statutory exceptions authorize department control in limited areas." The Attorney General concluded that "the Department's responsibilities are limited to evaluating the results of the programs and do not include controlling the actual manner in which the services are provided by the centers."

This interpretation of the Lanterman Act limits to some extent the ability of the Legislature and the department to control major program and fiscal aspects of the regional centers program. The state may not, for example, impose specific staffing standards or salary ranges on regional centers, control specific areas of operating expenses or regional center subcontracts, or other aspects of regional centers' day-to-day operations. However, the state may set limits on total regional center operating expenditures by placing limits on amounts allocated for personal services and various categories of operating expenses.

The Lanterman Act does specify certain performance and reporting requirements that regional centers must meet:

1. Section 4629 requires a regional center contract to "include reasonable specific performance and reporting requirements relative to the responsibilities of regional centers defined in this division, and the timing of compliance with such requirements. The department shall specify procedures to be used by all regional centers which shall:

a. Define "active" and "inactive" cases.
b. Account for all funds received or expended by regional centers.
c. Define a unit of direct service performed by regional center personnel.
d. Allocate indirect, administrative, and overhead expenditures to a unit of direct service.
e. Calculate costs per unit of direct services.
f. Provide such other information as the department may require to

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

analyze expenditures, conduct comparative costs and performance reviews, and implement the evaluation requirements in Chapter 8 (commencing with Section 4570 of this division).

Contracting agencies shall agree to use procedures specified by the department to produce caseload and unit of service cost reports."

2. Section 4631 states that the department's contract with each regional center shall require "strict accountability and reporting of all revenues and expenditures, and strict accountability and reporting as to the effectiveness of the regional center in carrying out its program and fiscal responsibilities as established herein."

3. Sections 4640–4655 mandate the responsibilities of the regional centers in meeting their contractual obligations. Contracts between the department and regional centers must specify (1) service area, (2) categories of persons to be served, and (3) services to be provided.

Under current law, as interpreted by the Attorney General, the department has two absolute means of controlling regional center operations: (1) contract termination and (2) performance contracting.

(1) *Contract Termination.* Section 4635 requires the department to terminate the contract of any regional center if the department finds that any regional center continues to fail in fulfilling its contractual obligations after reasonable efforts have been made to resolve the problem. This method has certain practical limitations. First, it is drastic. The threat of contract termination is not an effective means of exercising control over regional centers concerning minor policy issues. Second, contract termination may be disruptive to the delivery of regional center services. A significant amount of time might be required for regional center operations to adjust to a new governing board and top management. Finally, in certain parts of the state, the department may have to choose among an extremely limited number of nonprofit corporations which are willing to and capable of operating a regional center.

(2) *Performance Contracting.* If the department's role is limited to evaluating regional center cost effectiveness, control over regional center operations would be enhanced by providing regional centers with financial incentives to perform in a cost effective manner. The most important practical limitation on performance contracting is that the department does not yet have the means to evaluate regional center cost effectiveness. The department has yet to comply fully with Section 4629, which requires it to define "active" and "inactive" cases, to define a unit of direct service, to allocate indirect costs, and thereby to compare per unit costs between regional centers. Regional center cost effectiveness cannot be determined until these requirements have been met.

CONTINUING CARE SERVICES

The budget proposes a General Fund expenditure of $7,362,565 for Continuing Care Services, which is a decrease of $2,718,265, or 26.9 percent, below estimated current year expenditures. Table 6 shows how the proposed budget is calculated. The reductions of $2,086,512 for overhead shifts and $400,810 for Community Services Division reorganization are technical adjustments that shift expenditures from local assistance to state operations. The remaining components of the budget change are:

- a reduction of $863,218 for full year opt-out cost savings,
- an increase of $270,644 for adjustments to personal services and operating expenses, and
- an increase of $212,890 to restore cuts made pursuant to Section 27.2, Budget Act of 1979.

Increased Caseload Costs

The budget proposes funds for (a) the full year cost of CCSB clients added in the current year ($148,741) and (b) the cost of new clients in 1980–81 ($136,056). The $136,056 increase for new 1980–81 caseload is unallocated. These funds will be allocated between CCSB and regional centers after pending and future opt-out decisions have been made.

Opt-Out Costs

On January 1, 1980, three regional centers discontinued use of CCSB services, a process known as "opt-out". Estimated expenditures in the current year have been adjusted to reflect the transfer of 2,166 clients and $762,635 from CCSB to the new opt-out regional centers. The full year cost of opt-out in these centers is estimated to be $863,218, which is reflected as a budget year augmentation for regional centers and as a budget year reduction for CCSB. The department will report on the status of pending opt-out decisions during budget hearings, and will make adjustments to the current year and proposed budgets as required.

Table 6
Continuing Care Services
Reconciliation of Local Assistance (General Fund)

	Adjustments	*Total*
1979–80 Base Budget		$10,080,830
Price Increase (Operating Expense)	118,626	
OASDI Adjustment	12,745	
Section 27.2 Restoration	212,890	
Merit Salary Adjustment	139,273	
Overhead Shift	−2,086,512	
Opt-Out	−863,218	
Reorganization of Community Services Division	−400,810	
Full Year Cost of 1979–80 Caseload Increases	148,741	
1980–81 Proposed Expenditures		$7,362,565

PROGRAM DEVELOPMENT FUND

We recommend approval.

The budget proposes expenditures of $1,620,400 from the Developmental Disabilities Program Development Fund, the same amount as in the current year. In 1979–80, the fund financed 29 projects including residential living arrangements, work activity programs, and other services. The fund has two revenue sources: (1) parental fees, and (2) federal funds provided pursuant to P.L. 95-602.

Authorization for the fund will expire at the end of the current year, and the department intends to encumber the available fund prior to June 30,

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

1980. The department will seek legislation to continue the fund and the parental fee contributions to it.

HIGH-RISK INFANT FOLLOW-UP PROJECTS

We recommend adoption of supplemental report language requiring the department to submit an evaluation of the High-Risk Infant Follow-up projects to the Joint Legislative Budget Committee by December 1, 1980.

The budget proposes $1,006,010 from the General Fund for the High-Risk Infant Follow-Up projects. These projects are the department's primary means for preventing developmental disabilities or delays in high-risk infants.

During 1978–79, $820,031 was appropriated for the projects. Due to delays in the contracting process, the five projects funded by the appropriation did not become operational until the latter part of the 1978–79 fiscal year. As a result, little of the appropriation was spent during that year. The Legislature appropriated an additional $248,293 for the projects in the 1979 Budget Act. This amount, together with funds already encumbered, provided full contract and related funding during the current year in the amount of $1,068,324.

The department states that full year evaluation data for 100 of the 600 infants enrolled in the projects will be available on March 1, 1980. Data for an additional 200 infants will be available on June 1, 1980. The department has already designed an evaluation instrument to measure the effectiveness of the projects.

Continued funding for this program beyond the budget year should be based on a demonstration of program effectiveness. To ensure that this information is available to the Legislature when it considers the fiscal year 1981–82 budget, we recommend adoption of the following supplemental report language:

"The Department of Developmental Services, in cooperation with the Department of Finance, shall submit to the Joint Legislative Budget Committee by December 1, 1980, an evaluation of the High-Risk Infant Follow-Up projects."

2. STATE HOSPITALS (ALL PROGRAMS)

The state operates 11 hospitals which provide services to developmentally and mentally disabled clients. Chapter 1252, Statutes of 1977, which reorganized the Health and Welfare Agency, placed nine of the 11 hospitals (Agnews, Camarillo, Fairview, Lanterman, Napa, Patton, Porterville, Sonoma and Stockton) under the jurisdiction of the Department of Developmental Services and the remaining two (Atascadero and Metropolitan) under the jurisdiction of the Department of Mental Health. The Department of Mental Health is also responsible for management of the programs for the mentally disabled located in four state hospitals (Camarillo, Napa, Patton, and Stockton) operated by the Department of Developmental Services.

The budget proposes an expenditure of $471.1 million for state hospitals, an increase of $13.4 million, or 2.9 percent, above estimated current year expenditures. Table 7 identifies hospital expenditures by program since 1976–77.

Table 7
State Hospital Expenditures
All Programs
1976–77 to 1980–81
(in millions)

	Actual 1976–77	*Actual 1977–78*	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*
1. Programs for the Mentally Disabled					
A. Judicial Commitments					
General Fund expenditures	$25.2	$35.4	$45.8	$53.6	$55.7
Percent change from prior year	—	40.5%	29.0%	17.3%	3.9%
B. Local Programs					
General Fund expenditures	$88.8	$96.7	$108.0	$126.3	$128.7
Percent change from prior year	4.1	8.9%	11.7%	16.9%	1.9%
C. Total—Mentally Disabled Programs					
General Fund expenditures	$114.0	$132.1	$153.8	$179.9	$184.4
Percent change from prior year	—	15.9%	16.4%	17.1%	2.5%
2. Programs for the Developmentally Disabled					
General Fund expenditures	$174.1	$215.8	$232.7	$270.6	$278.2
Percent change from prior year	—	24.0%	7.8%	16.3%	2.8%
3. Total—Combined Programs					
A. General Fund expenditures	$288.1	$347.9	$386.5	$450.5	$462.6
Percent change from prior year	—	20.8%	11.1%	16.6%	2.7%
B. Reimbursements					
Expenditures	$6.0	$17.0	$10.6	$7.2	$8.5
Percent change from prior year	—	283.3%	−44.7%	−32.0%	18.0%
C. All Funds					
Expenditures	$294.1	$364.9	$397.1	$457.7	$471.1
Percent change from prior year	—	24.1%	8.8%	15.3%	2.9%

Population Projections

The budget projects that the hospital population will decline from 13,388 by the end of the current year to 12,386 by the end of the budget year, a reduction of 1,002, or 8.1 percent. To maintain certification for Medi-Cal reimbursement, hospitals must (a) maintain sufficient staff to care for patients and (b) house clients in facilities which meet environmental and fire and life/safety requirements. The hospitals have been cited for deficiencies in these areas in the past. The departments of Developmental Services and Mental Health filed plans of corrections for the deficiencies with the federal Department of Health, Education, and Welfare. The plans assumed that the population of the state hospitals would decline to 11,706 by June 1982 (8,070 for the developmentally disabled clients and 3,636 for the mentally disabled). To reach this level, the population must decline by an additional 680 clients in 1981–82. Table 8 shows hospital populations from 1976–77 although 1980–81 as reported in the Governor's Budget.

SB 354 Reports. Chapter 64, Statutes of 1979 (SB 354), requires the Departments of Mental Health and Developmental Services to develop a plan for the utilization of the hospitals through 1985. The plans will present the departments' analysis of the types of clients that state hospitals should be serving, and the departments' estimates of the necessary state and local

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programs which must be developed to enable the hospitals to serve the specific client types. The act required the departments to submit preliminary reports by September 1, 1979, which (a) analyzed a number of alternatives for use of the hospitals and (b) projected the number and types of clients to be served for each of the alternatives. The statute appropriated funds to implement a portion of the hospital construction needed to comply with the plan of correction approved by HEW.

Table 8
State Hospital Inhospital Population
1976–77 to 1980–81

	Actual 6/77	*Actual 6/78*	*Actual 6/79*	*Estimated 6/80*	*Estimated 6/81*
Agnews					
Developmentally disabled	937	911	907	1,034	1,026
Atascadero					
Mentally disabled	984	972	945	973	973
Camarillo					
Developmentally disabled	538	575	522	479	434
Mentally disabled	1,054	944	939	752	449
Subtotals	1,592	1,519	1,461	1,231	883
Fairview					
Developmentally disabled	1,546	1,459	1,381	1,272	1,177
Lanterman					
Developmentally disabled	1,644	1,560	1,469	1,358	1,258
Metropolitan					
Mentally disabled	1,025	842	769	850	850
Napa					
Developmentally disabled	373	429	392	380	357
Mentally disabled	1,499	1,360	1,352	1,221	964
Subtotals	1,872	1,789	1,744	1,601	1,321
Patton					
Developmentally disabled	345	314	292	268	245
Mentally disabled	912	907	943	940	900
Subtotals	1,257	1,221	1,235	1,208	1,145
Porterville					
Developmentally disabled	1,678	1,644	1,599	1,585	1,558
Sonoma					
Developmentally disabled	1,907	1,877	1,804	1,549	1,497
Stockton					
Developmentally disabled	617	605	589	627	598
Mentally disabled	88	99	112	100	100
Subtotals	705	704	701	727	698
Totals—Developmentally Disabled	9,585	9,374	8,955	8,552	8,150
Totals—Mentally Disabled	5,562	5,124	5,060	4,836 [a]	4,236 [a]
Grand Totals—Combined Populations	15,147	14,498	14,015	13,388 [a]	12,386 [a]

[a] Overestimates population by 76.

The statute also requires the departments to prepare final reports by February 1, 1980, which identify implementation plans based on the departments' preferred alternatives to hospitalization. According to the act, the plans will become the basis for future use of the hospitals.

At the time this analysis was prepared, the Department of Mental

Health had not submitted its September 1 report to the Legislature. The Department of Developmental Services' report, submitted in October 1979, estimates that the hospital population will decline lower than 8,070 by June 1982. The revised estimate reflects a population of 7,620. We will analyze the departments' final reports when they are submitted and be prepared to comment on them during the legislative budget hearings.

Medi-Cal Revenues

Background. Reimbursement from the Medi-Cal program offset a major portion of the cost of services provided to hospital clients meeting Medi-Cal eligibility standards. In 1980–81, Medi-Cal revenues are estimated to be $131,964,364 for state hospital services, which is approximately 28 percent of proposed hospital expenditures.

In order for hospitals to be eligible for Medi-Cal revenues, federal law require that: (1) the acute portion of the hospitals receive accreditation from the Joint Commission on Accreditation of Hospitals and (2) the skilled nursing and intermediate care portions of the hospitals be certified by HEW. State law requires licensure of skilled nursing and intermediate care facilities by the Department of Health Services. Because of the similarity of the certification and licensing activities, and in an effort to avoid duplication, HEW contracts with the Department of Health Services to perform the certification function. In return, the department receives approximately $6.8 million in Title XVIII and XIX funds.

Decertification. In the fall of 1977, the federal government decertified eight of the eleven state hospitals, citing deficiencies in staffing levels. In an effort to meet certification requirements, the Legislature authorized staffing augmentations of 3,054 positions and $38 million during the 1977–78 fiscal year. The 1978–79 budget proposed a further staff augmentation of 214 positions and $3 million. The Legislature rejected the proposal because of disparities in the staffing standards used by the Department of Health Services and the Departments of Mental Health and Developmental Services. The Legislature passed ACR 103 in 1978 which required the Department of Health Services to work with the departments of Developmental Services and Mental Health to develop a single set of standards for their respective populations. In the 1979 Budget Act, the Legislature appropriated an additional $9.8 million dollars and authorized 642 new positions, based on new standards. Further augmentations for staffing may result after the Legislature reviews additional level-of-care staffing standards being proposed during the budget year (the specific augmentation requests are discussed in our analyses of Items 297 and 302).

Status of Hospitals. All programs for the developmentally disabled were certified for Medi-Cal eligibility as of January 14, 1979. Except for programs at Stockton and the infirmary unit at Patton, none of the programs for the mentally disabled were certified as of that date. It is our understanding that several units at Napa may be recertified in the near future.

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Hospitals—Developmental Services

The budget proposes an expenditure of $385,191,762 from the General Fund for hospitals operated by the Department of Developmental Services. (In addition, expenditures of $4,505,772 for services provided to other agencies will be supported by reimbursements.) Of this amount, $278,202,917 will fund programs for the developmentally disabled and $106,988,845 will fund programs for the mentally disabled. Funds budgeted for the mentally disabled programs are appropriated to the Department of Mental Health which contracts for services with the Department of Developmental Services. Our analysis of the proposed budget for the mentally disabled program is contained in our discussion of Item 302.

The proposed General Fund expenditures of $278,202,917 for hospital programs serving the developmentally disabled are $7,638,907, or 2.8 percent, above estimated current year expenditures of $270,564,010. Table 9 displays General Fund expenditures for this program.

Table 9
State Hospitals—Developmental Disabilities Program (General Fund) Expenditures

	Actual 1978–79	*Estimated 1979–80*	*Proposed 1980–81*
Amount	$232,678,362	$270,564,010	$278,202,917
Percent change from prior year	7.8%	16.3%	2.8%

Table 10 shows the adjustments to the current year base budget, which were made to arrive at the level of proposed 1980–81 expenditures.

Table 10
State Hospitals—Developmental Disabilities Program Summary of Budget Expenditure Changes From the Current Year

	Adjustments	*Total*
1979–80 Adjusted Budget Base		$270,564,010
Benefits	486,453	
Merit Salary Adjustment	3,623,384	
Price Increase (Operating Expenses)	4,080,264	
Section 27.2 Restoration	986,436	
Population Adjustments [a]	−7,646,833	
Funding Adjustment	551,701	
Special Repairs	−96,030	
Budget Change Proposals:		
ACR 103 (physical development and continuing medical care)	2,045,861	
ACR 103 (medical/surgery)	1,138,193	
Affirmative Action Coordinators	241,888	
Foster Grandparent	55,559	
Temporary Facilities	1,055,800	
Medical Assistance Program	1,116,231	
Total Adjustments	$7,638,907	
1980–81 Proposed Expenditures		$278,202,917

[a] Population adjustments

Quarterly allocation adjustments	$−2,516,623
Population adjustment—LOC Staff	−3,689,178
Population adjustment—Non-LOC Staff	−1,441,032
	$−7,646,833

Client Transfer from Patton State Hospital

The developmentally disabled population at Patton is estimated to decline to 245 by the end of 1980–81. The department is presently reviewing the feasibility of transferring the remaining developmentally disabled clients at Patton to other hospitals or to community settings. Transfer of the remaining developmentally disabled population would leave a population of 900 mentally disabled clients at Patton.

The department indicates that a final decision on the transfer will be reached in early 1980, and that any budgetary changes required to implement the decision will be presented at that time.

Section 27.2 Restoration

We recommend a reduction of funds overbudgeted for services, for a General Fund savings of $49,147 (Item 297).

In compliance with Control Section 27.2, Budget Act of 1979, the department reduced the amount budgeted for personnel services in the state hospitals for the current year by $937,289. In Chapter 1035, Statutes of 1979 (SB 186), the Legislature expressed its intent that the reduction occur only during 1979–80. Consequently, the 1980–81 budget restores the amount that had been reduced in the current year. The department's budget schedules, however, show that the amount added to restore the Section 27.2 reduction is $986,436. This amount exceeds the amount reduced per Section 27.2 by $49,147. We recommend deletion of the amount overbudgeted, for a General Fund savings of $49,147 in Item 297.

ACR 103 Staffing Augmentation

We recommend approval.

The budget proposes an augmentation of $3,184,054 and 187.5 level-of-care positions to implement staffing standards developed pursuant to ACR 103 for the medical/surgical and continuing medical care programs.

In 1978 the Legislature was informed that the standard used by the Department of Health Services to judge the adequacy of staffing in the hospitals was inconsistent with the staffing standards used by the Department of Developmental Services. Consequently, it adopted ACR 103 which required the Departments of Health Services and Developmental Services to jointly establish and approve a single set of staffing standards which met licensing requirements for adequate client care. The standards were to include both non-level-of-care and level-of-care positions.

During budget hearings on the 1979 Budget Bill, the department proposed a set of standards for level-of-care staffing for all but two of its programs. To implement the standards, the department requested 515.7 positions and $8,092,363. The Legislature approved the request.

Current Request. The department has developed level-of-care staffing standards for the two programs omitted from its proposal last year, the medical/surgical and continuing medical care programs. The proposed budget requests 187.5 positions and $3,184,054 to implement the new standards. The Department of Health Services has reviewed the stand-

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ards, but has not yet formally approved them. In adopting ACR 103, the Legislature clearly expressed its intent that the Department of Health Services actively participate and formally approve specific staffing standards. Without formal approval of the proposed standards, the Legislature cannot be assured the standards will be adequate to maintain the hospitals' eligibility for federal funding. For this reason, we recommend that approval of the department's request be made contingent on formal approval of the staffing standards by the Department of Health Services.

The department has not yet completed work on the non-level-of-care staffing standards. However, according to the department, implementation of these standards should not require a staffing augmentation.

Expenditure Reductions Due to Population Declines

We recommend approval of the proposed $3,689,178 reduction and the adoption of supplemental language requiring the department to report on all cost categories affected by population declines.

Populations in the hospitals have been declining steadily since the early 1970's. By 1980–81, the developmentally disabled population in the hospitals will have declined by an estimated 2,343 or 29 percent, from the 1970–71 level.

Traditionally, the department has proposed a reduction of level-of-care staff in its budget to account for anticipated population declines. The 1980–81 budget proposed a reduction of 453.4 positions, for an annual savings of $7,378,356. The department, however, proposes to retain half of the funding, or $3,689,178, to fund temporary positions while the population declines to the projected year-end level. The amount retained in 1980–81 will be reduced from the budget base in calculating the 1981–82 budget. This year, for the first time, the department also proposes to eliminate 167.7 non-level-of-care positions for a budget year savings of $1,441,032. This is an important step forward in properly accounting for the reduced expenditures which should result from population declines.

As population declines, expenditure reductions should occur in operating expenses and equipment as well as in personal services. Department staff report that operating expenses and equipment have not been included in annual reductions because the hospitals are underfunded in these areas. If the hospitals are underbudgeted in operating expenses and equipment, funds should be requested in the department's budget. We recommend that the following supplemental report language be adopted requiring the department to report on the cost categories affected by population declines:

"The Department of Developmental Services shall report by November 1, 1980, on all cost categories potentially affected by population declines, and explain the process by which reductions of hospital expenditures will occur in the future."

Psychiatric Technician Apprenticeship Projects

We recommend that funds budgeted in Item 297 for expansion of the Psychiatric Technician Apprenticeship project be deleted, for a General Fund savings of $1,016,497.

The department has budgeted $1,309,126 for psychiatric technician apprenticeship programs. Of this amount $292,629 is proposed to support a program at Camarillo ending February 1981, and $1,016,497 is to be transferred to the Employment Development Department (EDD) to establish programs under the California Worksite Education and Training Act (CWETA), authorized by Chapter 1181, Statutes of 1979.

Background. In 1978–79 the department established a pilot project to develop psychiatric technician apprenticeship programs at the state hospitals. The project was initiated under contract with the Department of Industrial Relations and initially funded with federal Department of Labor funds. The project has the following objectives: (a) to increase the number of licensed psychiatric technicians in the state, (b) to increase the number employed in the state hospitals, and (c) to increase the number of disadvantaged and minority persons employed by the hospitals. To achieve these objectives, students are payed full-time salaries to obtain the academic and clinical training required prior to licensure examination while they work part-time at the hospitals.

During 1978–79, the department implemented seven training programs in four hospitals. The initial programs consisted of 253 apprentices. Funds for two additional programs were included in the 1979 Budget Act. One program (Camarillo) began January 1, 1980, with 35 apprentices and will end in February 1981. There are no plans to establish the second program at Fairview during the current year.

Although the department had anticipated full federal funding for these programs, the expected level of funding has not materialized. Rather than discontinue the project, the Department of Finance submitted a budget amendment letter in April 1978, to request support from the General Fund to make up for the shortfall in federal funds. Since that time, the General Fund has been the primary funding source for the project. Table 11 shows funding for the project, by source, since 1978–79.

Table 11
Funding for Psychiatric Technician Apprenticeship Programs
1978–79 to 1980–81

	Actual 1978–79	*Estimated 1979–80*	*Proposed 1980–81*
Federal Funds	$402,026	$52,407	—
General Fund	2,194,083	1,309,126	$1,309,126
Totals	$2,596,109	$1,361,533	$1,309,126

New Proposal. The 1980–81 budget proposes to retain the same level of General Fund support ($1,309,126) for apprenticeship programs as the amount estimated for the current year. Except for the $292,629 necessary to support the Camarillo program, all of the funds would be transferred to EDD to establish programs under CWETA.

Our analysis indicates that the budget proposed should not be approved, for the following reasons:

1. *New apprenticeship programs should not be established until the existing programs have been evaluated.* The Governor's Budget for 1979–80 stated that the department would evaluate the project as part of the

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1980–81 budget process. This was not done. In fact, an adequate evaluation of the project will not be possible until the students graduate, take licensure examinations and select employment locations. Because most of the students participating in the project will not graduate until June 1980, sufficient information to evaluate the program will not be available until the fall of 1980 at the earliest.

2. *The department is unable to explain how the funds transferred to EDD will be used.* The CWETA program establishes a number of requirements for programs operated under its authority. It is unclear how DDS and EDD would restructure the apprenticeship program to satisfy these requirements. Further, the budget states that program sites will be expanded to include community settings. This would be a substantive program change from the current hospital-based programs, for which no justification has been provided.

3. *Funds have already been appropriated for CWETA programs.* Chapter 1181 appropriated $25 million to implement CWETA during the current year. If the departments plan to restructure the apprenticeship program to qualify it as a CWETA project, funding should be derived from monies already available for CWETA projects.

Automated Pharmacy Record System

We recommend approval of $342,963 requested to develop an automated pharmacy record system for the state hospitals, and the addition of control language requiring the department to submit a feasibility plan for the project for review by the Joint Legislative Budget Committee 30 days prior to implementation.

The proposed budget includes $342,963 to develop and implement an automated pharmacy system in the department's nine state hospitals. The funding requested would support three temporary positions to develop and implement the system and purchase the necessary computer and software equipment. The department claims that the operation of an automated pharmacy system would result in savings of $1.2 million annually.

Our analysis indicates that an automated pharmacy system has the potential to reduce state costs. Automation of pharmacy records promises significant improvements in pharmacy operations by decreasing unnecessary inventory underutilization of stock and pilferage. In its present form, however, the proposal is incomplete in two respects:

1. The feasibility study for this project, which will assess system alternatives, costs, and savings, will not be available until the end of the current year. The information contained in the feasibility study is essential in determining the costs and benefits of the project.

2. Automation requests of this type should be coordinated with the Department of Mental Health and proposed jointly, where feasible. Even though the state hospitals are operated by two different departments, they share many of the same data processing needs. The departments are not working together to solve these shared problems. Staff in the Department of Developmental Services indicated that Department of Mental Health

staff had participated in developing the proposed system. Staff from the Department of Mental Health were unaware of the proposed system, however, and had initiated no requests to include funding for the project in the department's budget. This raises the danger that uncoordinated proposals for automation projects which may apply to all state hospitals will result in inefficient application of automation processes.

Based on the savings potential of this project, we recommend approval of the funds budgeted for it. Because information necessary to analyze the costs and benefits of the project will not be available until June 1980, however, we recommend that the department submit a copy of the approved feasibility report for review by the Joint Legislative Budget Committee 30 days prior to implementation of the proposed system. Specifically, we recommend that the following control language be added to Item 297:

"Provided that the director implement the automated pharmacy record project not sooner than 30 days after submittal of an approved feasibility study report on the project to the Joint Legislative Budget Committee, in accordance with Section 4 of the Budget Act."

Prohibited Administrative Positions

We recommend deletion of six positions and $246,390 budgeted for administrative positions prohibited by Budget Act language (Item 297).

Section 4301 of the Welfare and Institutions Code authorized two administrative positions for each state hospital—a clinical director and hospital administrator. The section requires that one of these two positions be designated as hospital director. Despite the provisions of Section 4301, a number of state hospitals have established the hospital director as a third and separate position.

In 1977, the Legislature expressed its intent that the hospitals should utilize only two positions by adding language to the 1977 Budget Act which stated:

"Provided further, that the State Department of Developmental Services shall comply with the provisions of Article 3 (commencing with Section 4300) of Chapter 2 of Division 4 of the Welfare and Institutions Code; and provided further, that no position shall be administratively established nor shall any authorized position be redirected to replace the person appointed as chief executive officer of the state hospital."

This language has been included in each Budget Act since the 1977 Act.

Our analysis indicates that the hospitals are continuing to use separate positions for the hospital directors, in violation of state law. In three hospitals (Agnews, Napa and Porterville) full-time positions have been administratively established. In the six other hospitals, the clinical directors' duties are performed on a part-time basis by a program director, while the hospital administrator and director positions are full-time.

If the department believes that additional positions are essential for the proper administration of the hospitals, it should seek legislation to repeal the requirements of Section 4301. In the meantime, the department should cease using positions in violation of the law. Therefore, we recommend deletion of the three full-time positions and six half-time positions, for a savings of $246,390 in Item 297.

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Medical Assistance Units

We recommend deletion of 37.5 positions and $1,116,231 in General Funds budgeted for the Medical Assistance Units (Item 297).

The department has budgeted $1,116,231 to support the Medical Assistance Units in each of its nine state hospitals. These units were established in 1967 to perform a number of the functions which the federal government required in order for the hospitals to be eligible for Medi-Cal reimbursement. Prior to December 30, 1979, the costs of the units were fully reimbursed by Medi-Cal because staff were performing Medi-Cal-related functions.

Functions Questioned. In recent years, many of the functions performed by these units either have been shifted to field staff of the Department of Health Services or have become unnecessary as the hospitals complied with requirements established during certification reviews performed by the Department of Health Services' licensing staff. As a result, staff of the units have been performing functions that are unrelated to Medi-Cal responsibilities.

In our analysis of the department's 1979–80 budget, we recommended (1) withdrawal of Medi-Cal reimbursement for these units because they were no longer performing Medi-Cal-related functions and (2) elimination of the units because they were unnecessary for certification. During budget hearings, the department stated that half of the positions were performing Medi-Cal-related functions. On this basis, the Legislature deleted 67.5 of the 134 positions, and reduced reimbursements by $1,196,968.

Withdrawal of Medi-Cal Support. In the current year, HEW recommended that the Department of Health Services review the units to ensure that the Medi-Cal program was being billed appropriately for services. HEW staff further recommended that personnel located in the state hospitals performing Medi-Cal functions report to the Department of Health Services rather than to the Department of Developmental Services. In response, the departments performed job audits of the remaining 67.5 positions and found that only 30 of the 67.5 were performing Medi-Cal functions.

Budget Proposal. The budget proposes to (1) transfer the 30 positions which can appropriately be billed to Medi-Cal to the Department of Health Services, (2) delete Medi-Cal reimbursement for the units from the Department of Developmental Services' budget, and (3) provide General Fund support of $1,116,231 for the remaining 37.5 positions.

The department is unable to explain (a) what functions the 37.5 staff will be performing after the personnel transfer, (b) how the functions will differ from those performed in the past and (c) how functions to be performed by the DDS staff will differ from those to be performed by the 30 DHS staff. Consequently, we have no justification for these positions, and recommend deletion of the requested funds, for a savings of $1,116,231 in Item 297. Our discussion of the other 30 positions is discussed in Item 284.

Energy and Resources Fund Project

The budget proposes $80,050 from the Energy and Resources Fund to repair and replace boiler controls at Fairview State Hospital. According to the department, installation of the controls would increase the efficiency of Fairview's three boilers permitting the hospitals to reduce the number of boilers in operation at any one time. The department estimates that this reduction would result in an annual energy savings of 10 percent of fuel costs, or $60,000. This represents a payback period of 16 months. The department's proposal appears to have merit and we recommend approval. However, funding will be unavailable unless the Legislature establishes the Energy and Resources Fund.

Special Repairs

We recommend deletion of $101,450 budgeted to paint several buildings at Agnews State Hospital.

The budget requests $101,450 in the special repairs category for a contract to paint four units in building 54 and the exterior of building 51 at Agnews State Hospital. The department maintains that Agnews does not have a sufficient number of painting staff, and that ongoing painting tasks at the hospital cannot be performed.

The special repairs category was established to provide funds for nonroutine, onetime expenditures which could not be performed by hospital employees. The proposed work, however, does not fall in this category. Rather, it amounts to ongoing maintenance work of the type that should be performed by the hospital's plant operations staff. For this reason, we recommend deletion of the funds budgeted to fund painting contracts, for a savings of $101,450 in Item 297.

The department is presently reviewing non-level-of-care staffing requirements under ACR 103, and will be proposing staffing adjustments based on this review within the year. If the review indicates that Agnews has insufficient staff to perform routine maintenance functions, the department should either redirect a position(s) from one of the hospitals with a greater-than-average number of staff, or justify a new position(s) through the budget process.

3. PLANNING AND EVALUATION PROGRAM

We recommend approval.

The budget proposes General Fund expenditures of $2,761,306 for planning and evaluation, an increase of $430,513, or 18.5 percent, above estimated current year expenditures. The primary component of this increase is a proposed expenditure of $99,648 for four new positions and operating expenses justified by increased workload. The balance of the increase consists of expenditures charged to the program from the Administrative Services Program.

4. ADMINISTRATIVE SERVICES PROGRAM

The budget proposes General Fund expenditures of $7,394,399 for department administration, an increase of $1,395,176, or 23.3 percent, above estimated current year expenditures. Expenditures for administrative services are allocated to the department's other programs on a prorated

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basis. Expenditures for departmental administration plus expenditures of $7,272,573 for program activities at department headquarters comprise the proposed department support budget of $14,666,972 in Item 295. Table 12 shows the changes in the proposed support budget from the current year.

The department is requesting funding for budget change proposals, including: (1) $2,086,512 to shift overhead expenses for Continuing Care Services from local assistance to state operations, (2) $570,580 for 3.5 limited term positions and first year equipment costs to install an automated uniform accounting system in regional centers, (3) $400,810 transferred from Continuing Care Services to implement the reorganization of the Community Services Division, (4) $342,963 for three positions and equipment costs to design and install an automated pharmacy system in the state hospitals for the developmentally disabled, (5) $86,162 for three new auditor positions, and (6) $18,890 for one new position to augment the department's electronic data processing staff.

Table 12
Department of Developmental Services
1980–81 Support Budget
State General Funds

	Adjustments	*Total*
Budget Base, 1979–80		$9,323,299
Current Year Adjustments:		
Section 27.2 Reductions	$−162,110	
Salary Increase	1,169,921	
Health Benefits	49,833	
AB 3274 Continuation	24,001	
Adjusted Budget Base, 1979–80		$10,404,944
1980–81 Adjustments:		
Section 27.2 Restoration	$162,110	
Merit Salary Increase	129,075	
Full Year Cost of Psych Tech Unit	41,825	
Benefits (OASDI)	16,473	
Price Increase—7 Percent	277,934	
Budget Change Proposals	3,658,612	
AB 3274 Funding Termination	−24,001	
Proposed Budget, 1980–81 (Item 295)		$14,666,972

Automated Uniform Accounting System

We withhold recommendation pending a department progress report on implementation of a manual uniform accounting system for regional centers.

The budget proposes $570,000 to design and install an automated uniform accounting system for regional centers. Control language in the Budget Act of 1979 requires the department to develop and install a uniform accounting, encumbrance, budgeting and reporting system by June 30, 1980. The department has informed us that a manual system will be installed by that date. The department, pursuant to Budget Act language, will be submitting a report to the Joint Legislative Budget Committee by March 15, 1980, on the progress made toward implementation of this system.

The budget request would fund 3.5 positions, operating expenses, and the first year costs to purchase 15 minicomputers to automate the uniform accounting system. The department is using $65,000 in currently budgeted funds to conduct a feasibility study of the automated system, as required by Section 4637 of the Welfare and Institutions Code. The department also is required to submit the feasibility study to the Legislature by June 15, 1980.

Because the success of an automated system is dependent upon the prior implementation of a manual system, we cannot determine the appropriateness of the automated system until the department demonstrates that the manual system will be implemented on schedule. We therefore withhold our recommendation on this proposal until the department presents its March 15, 1980, progress report on the implementation of the manual system.

Proposed Auditor Positions

We recommend approval.

The budget proposes $86,162 in General Fund expenditures to establish three positions in the Audit Section to increase the department's fiscal monitoring capability. Currently, the department has one supervisor, one clerical, and ten auditor positions. The department has submitted workload data which indicate that the current number of authorized auditor positions is insufficient to conduct the year-end audits of the 21 regional centers and the special audits and projects required of the section. We conclude that the department's request is justified and recommend approval.

Proposed Electronic Data Processing Positions

We recommend approval.

The budget proposes $18,890 in additional General Fund expenditures and $33,925 from redirected funds to establish three positions in the Data and Information Branch to augment the department's electronic data processing capabilities. This proposal would increase the number of programmers from four to five and the number of key data operators from five to seven. Workload data provided by the department indicate that these new positions are necessary in order to complete implementation of the Client Development Evaluation Report system. We conclude that this request is justified and recommend approval.

5. LEGISLATIVE MANDATES

We recommend approval.

The budget proposes General Fund expenditures of $43,438 for legislative mandates, the same as estimated expenditures in the current year. The mandates funded from this item are:

(1) Chapter 498, Statutes of 1977, which requires the department to pay coroner's costs for inquests into deaths at state hospitals; and

(2) Chapter 694, Statutes of 1975, which requires the department to pay for court-appointed public defenders or private attorneys to represent developmentally disabled persons in conservatorship and guardianship hearings.

Health and Welfare Agency
DEPARTMENT OF MENTAL HEALTH

Items 300–303 from the General Fund — Budget p. HW 94

Requested 1980–81	$553,235,463
Estimated 1979–80	495,456,709
Actual 1978–79	408,954,728
Requested increase (excluding amount for salary increases) $57,778,754 (+11.7 percent)	
Total recommended reduction	$31,190,896

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
300	Department Support	General	$13,545,556
—	Chapter 1172, Statutes of 1979	General	200,000
—	Chapter 1058, Statutes of 1979	General	181,984
301	Mentally Disabled—Judicially Committed	General	55,680,470
302	Local Assistance	General	483,313,793
303	Legislative Mandates	General	313,660
	Total		$553,235,463

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Short-Doyle Medi-Cal Claims Review. Reduce Item 300 by $52,249.* Recommend (a) authorization of 5 requested positions on a limited term basis, (b) reduction of $52,249 in the General Fund budgeted for salaries and (c) increase of $52,249 in federal reimbursements. 788
2. *Utilization Review. Reduce Item 300 by $1,070,000.* Recommend deletion of 9 positions and funds budgeted to support utilization review activities, for a General Fund savings of $1,070,000 and a reduction in federal reimbursements of $123,567. 789
3. *Client Information System. Reduce Item 300 by $355,639.* Recommend (a) deletion of 8 positions budgeted to develop client information systems and (b) adoption of Budget Act language prohibiting additional data processing expenditures until a comprehensive management information systems plan is submitted to the Legislature. 791
4. Health Training Centers. Recommend adoption of Budget Act language requiring that, beginning in 1981–82, 792

funding for services provided to other agencies be obtained on a reimbursement basis.

5. *Continuing Care Services Section. Reduce Item 302 by $1,565,288.* Recommend 10 percent reduction in amount budgeted for support of CCSS. 794
6. *Manpower Project. Reduce Item 300 by $32,395.* Recommend (a) the schedule of federal funds be increased to reflect $355,514 available for the manpower project and (b) reduction of General Fund to reflect a $32,395 offset available to cover indirect costs. 795
7. *Equipment Purchases. Reduce Item 300 by $139,783.* Recommend reduction in amount budgeted for equipment purchases and overbudgeting of equipment leases. 795
8. *Augmentation of Local Programs. Reduce Item 302 by $25 million.* Recommend reduction of funds budgeted to augment local programs. 799
9. *Prevention Projects. Reduce Item 300 by $240,750 and Item 302 by $455,600.* Recommend reduction of amount budgeted for unjustified prevention projects. 802
10. *Napa Pilot Project. Reduce Item 300 by $303,328 and Item 302 by $1,108,326.* Recommend reduction of amount budgeted to implement a pilot staffing project. 807
11. Hospital Expenditure Reductions. Recommend adoption of (a) Budget Act language requiring the department to reduce non-level-of-care staff due to population declines, (b) supplemental language requiring the department to report on cost areas affected by hospital decline. 808
12. *Hiring-Above-Minimum. Reduce Item 302 by $474,000.* Recommend reduction of amount budgeted to fill positions at salary levels above the minimum. 809
13. *Administrative Positions. Reduce Item 302 by $47,776.* Recommend deletion of funds budgeted for positions prohibited by law. 810
14. *Community Planning Program. Reduce Item 302 by $86,765.* Recommend reduction of funds budgeted to replace federal funds. 811
15. *Non-Level-of-Care Positions. Reduce Item 302 by $228,997.* Recommend deletion of 12 positions budgeted for non-level-of-care functions at Atascadero State Hospital. 811
16. *Special Repair. Reduce Item 302 by $30,000.* Recommend deletion of funds budgeted for a painting contract. 812

GENERAL PROGRAM STATEMENT

Chapter 1252, Statutes of 1977 (SB 363), created the Department of Mental Health (DMH), effective July 1, 1978. The department directs and coordinates state efforts for the prevention and treatment of mental disabilities. The department's primary responsibilities are to:

1. Administer the Short-Doyle Act, which provides for delivery of mental health services through a state-county partnership;

DEPARTMENT OF MENTAL HEALTH—Continued

2. Operate two state hospitals which exclusively serve the mentally disabled (Atascadero and Metropolitan);
3. Manage programs for the mentally disabled located in four state hospitals (Camarillo, Napa, Stockton, and Patton) operated by the Department of Developmental Services which serve both the mentally and developmentally disabled;
4. Administer the Lanterman-Petris-Short Act, which provides for involuntary treatment of the mentally disabled in hospital and community programs.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $553,235,463 from the General Fund for support of Department of Mental Health activities in 1980–81, which is an increase of $57,778,754, or 11.7 percent, above estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. Table 1 shows proposed General Fund expenditures by program.

Table 1
Mental Health Program
General Fund Expenditures [a]

	Actual 1978–79	*Estimated 1979–80*	*Proposed 1980–81*	*Change 1980–81 over 1979–80*	
				Amount	*Percent*
Department Support	$6,357,978	$12,411,478	$13,927,540	$1,516,062	12.2%
Judicial Commitments (State Hospitals)	45,667,651	53,637,442	55,680,470	2,043,028	3.8
Local Assistance	$356,929,099	$429,407,789	$483,627,453	$54,219,604	12.6
State Hospitals	(108,028,368)	(126,282,304)	(128,705,533)	(2,423,229)	(1.9)
Local Programs	(248,688,626)	(302,811,885)	(354,608,320)	(51,796,375)	(17.1)
Legislative Mandates	(212,105)	(313,600)	(313,600)	(0)	(0)
Total Expenditures	$408,954,728	$495,456,709	$553,235,463	$57,778,694	11.7%

[a] Includes funds appropriated in legislation.

1. DEPARTMENT SUPPORT: ITEM 300

The budget proposes an appropriation of $13,927,540 from the General Fund for support of the department in 1980–81, which is an increase of $1,516,062, or 12.2 percent, over estimated current year expenditures. Table 2 details proposed General Fund adjustments to estimated current year expenditures.

Department Organization

In our 1979–80 analysis of the department's budget, we indicated that we were unable to identify for the Legislature how the department intended to assign staff and program responsibilities because it had prepared and submitted to the Legislature a number of different organizational structures. Specifically, the department had submitted to the Legislature three different organization plans—one in the Governor's Budget narrative, one in the salary and wages supplement, and one pursuant to language in the Budget Act of 1978.

Table 2
Department of Mental Health-Support
Proposed General Fund Adjustments
Fiscal Year 1980–81

	Adjustment	*Total*
1979–80 Adjusted Budget Base		$12,411,478
Baseline Adjustments:		
Benefits	$13,393	
Merit Salary Adjustment	110,423	
Price Increase—Operating Expenses	295,686	
Section 27.2 Restoration	216,244	
OE&E Reduction	−300,000	
Programs Funded in Prior Legislation		
1) Chapter 1172/79 Management Information	100,000	
2) Chapter 1058/79 Brain Damage	113,968	
3) Chapter 1194/79 Case Management	−250,000	
Budget Change Proposals		
1) Metropolitan Client Information System	309,639	
2) Area Teams Augmentation	328,478	
3) Medi-Cal Auditing	113,609	
4) Medi-Cal Claims Processing	17,014	
5) Medical Records Consultants	46,973	
6) Chief, Management Services Section	40,701	
7) Contracts Management Analyst	21,585	
8) Patient Registry	46,000	
9) Health and Welfare Agency	−10,981	
10) ACR 103 Evaluation	303,328	
Total Adjustments		$1,516,062
1980–81 Proposed Budget		$13,927,540

Again this year, the department has presented inconsistent information to describe its organization. The budget describes an organization different from that detailed in the salary and wages supplement, and department staff report that the organizational structure has also changed from that which is displayed in the budget. Without access to accurate written information on the structure of the department, we have had to obtain staffing information on a case-by-case basis. The continued fluctuation in the department's organization structure makes it difficult for the Legislature to analyze staffing needs and utilization of resources.

Effectiveness of 94 Positions Authorized in 1978–79 Budget

In 1978–79, the Legislature authorized 94 positions to increase the department's program accountability and performance. The Supplemental Report of the 1979 Budget Act directed the department to report to the Legislature by January 1, 1980 on the functions and effectiveness of 84 of the 94 positions. (The remaining 10 positions were eliminated under Section 20 of the Budget Act of 1979.) Our analysis indicates that the department's report is inadequate. The report provides a position-by-position job description but provides no summary information on the use of the positions or their impact in improving the department's program performance and accountability. Thus, the report fails to respond to the legislative directive.

DEPARTMENT OF MENTAL HEALTH—Continued

Review of Short-Doyle Medi-Cal Claims

We recommend approval of five positions requested to review Short-Doyle Medi-Cal claims on a limited term basis. We further recommend a reduction of $52,249 from the General Fund to support the positions and a corresponding increase in federal reimbursements (Item 300).

The budget proposes $130,623 from the General Fund to establish five positions to increase its review of local Short-Doyle Medi-Cal claims. Four positions would verify recipient eligibility during audits of Short-Doyle Medi-Cal providers and one position would review and process Medi-Cal claims from local programs.

The department's request for increased staffing is in response to new Department of Health Services (DHS) requirements relating to the continuation of Medi-Cal funding.

Auditors. In the past, Department of Mental Health audits of Short-Doyle Medi-Cal providers did not verify that persons receiving Medi-Cal benefits were actually eligible for such services. The DHS is now requiring that once every three years the department verify the Medi-Cal eligibility of a representative sample of clients.

Because eligibility verification will be a new function, the department has no actual workload statistics to use in estimating its staffing needs. The department's request assumes that the average verification audit would require 19 hours. Should the time required vary from this estimate, the department may be inappropriately staffed. Further, department staff report that the entire verification function could be automated if a system were developed to match department statistics with information on Medi-Cal eligibility computer tapes. This would provide an additional time savings which is not reflected in the department's request.

For these reasons, we recommend that the auditor positions be approved on a limited term basis so that the Legislature may have an opportunity to review the continued need for the positions at a later date.

Claims Processor. In past years, the department has not thoroughly reviewed Short-Doyle Medi-Cal claims. The Interagency Agreement between the department and the DHS requires the department to review local claims, correct errors, and aggregate the claims for processing at DHS. Again, the workload information presented to justify one new position was calculated without benefit of actual workload data. We recommend that the processor position also be established on a limited term basis.

Failure to Budget Federal Funds. The U.S. Department of Health, Education, and Welfare (HEW) will fund 40 percent of the cost of positions performing Medi-Cal related functions if the functions are included in the Interagency Agreement between the Departments of Health Services and Mental Health. The Interagency Agreement includes a requirement that DMH (a) verify Medi-Cal eligibility during audits and (b) provide reports to DHS on services rendered. Therefore, the positions should have been budgeted at 60 percent General Fund ($78,374) and 40 percent federal reimbursements ($52,249) instead of 100 percent General

Fund. We recommend a reduction in Item 300 of $52,249 and an increase in federal reimbursements of $52,249.

Utilization Review

We recommend deletion of nine positions for utilization review activities, for a General Fund savings of $1,070,000 and a reduction in federal reimbursements of $123,567.

The budget proposes an expenditure of $1,070,000 from the General Fund to support utilization review activities for Medi-Cal and non-Medi-Cal providers, which is a $70,000, or 7 percent, increase above the estimated current year expenditures.

Background. Federal law and regulations require Short-Doyle service providers to perform utilization reviews for services whose costs are reimbursed by Medi-Cal. The purpose of the reviews is to assure that Medi-Cal recipients are receiving appropriate service. In addition, Chapter 1393, Statutes of 1978, expanded the review requirement to include all other Short-Doyle services. The Legislature appropriated $1 million in the 1978 Budget Act to permit the department to develop and implement a utilization review system for all Short-Doyle inpatient services in 1978–79. The entire amount reverted to the General Fund at the end of the 1978–79 fiscal year because the department failed to develop a utilization review plan.

In the 1979–80 budget, the department again requested $1 million to implement utilization review procedures. In our analysis of the budget, we recommended deletion of the funds because the department still did not have a plan for the development and implementation of utilization review. We subsequently withdrew our recommendation when the department provided a utilization review plan during budget hearings. The Legislature approved the requested funds after adopting (1) Budget Act language requiring the department to submit a final plan 30 days prior to the allocation of the funds and (2) supplemental report language requiring the department to report by January 1, 1980 on its progress in implementing utilization review procedures in each county.

As of February 4, 1980, the department had not issued the progress report required by the Supplemental Report of the 1979 Budget Act. Further, it did not submit the final expenditure plan for 1979–80 until January 10, 1980. The January 10 plan was substantively different from the plan submitted during the previous budget hearings on the department's proposal. At that time, the department's plan stated that the entire $1 million would be allocated to *local* programs by September 1, 1979. The January 10 proposal instead allocated funds for (a) special projects, (b) support of nine positions, and (c) assistance to populous counties. Because the department did not submit its proposal until January, a major portion of the $1 million will again revert to the General Fund.

Budget Proposal. The 1980–81 budget proposes $1,070,000 to continue these program activities at their existing level. This amount includes an adjustment for cost of living. Our review indicates that the department's proposal is not justified for the following reasons:

1. *Special Projects are Unnecessary.* The department intends to spend

DEPARTMENT OF MENTAL HEALTH—Continued

$85,600 on special projects to (a) explore solutions to problems faced by facilities in implementing utilization review procedures and (b) test innovative approaches in administering utilization review systems.

The department has existing resources available to review and resolve implementation problems. The Division of Planning Development, Research and Evaluation has 15 professional staff to perform a number of functions including the evaluation of program plans and review of plan implementation. Our analysis indicates that the division's staff could be used to perform the special projects function. We recommend deletion of the $85,600.

2. *Additional Staff are Unnecessary.* The department's proposal includes $187,685 from the General Fund to defray 60 percent of the costs of nine new support positions. The remaining 40 percent ($123,567) will be obtained from the federal share of Medi-Cal funds. Eight of the positions, to be located in the department's six service area teams, would provide technical assistance to service providers on the operation of utilization review systems. The service area teams, established in 1978, provide clinical and administrative assistance to programs in their respective regions. The ninth position, to be located in the Division of Planning Development, Research and Evaluation would assist in development of policy and procedures for the Short-Doyle Medi-Cal program.

The department does not need to establish new positions to support utilization review activities. Technical assistance can be provided by existing department employees who already work with individual service providers and local programs. The department has approximately 95 staff providing assistance to local programs, 61 of whom are part of service area teams. Among their other duties, the staff (a) evaluate individual service providers to assess quality of care, client characteristics, staff qualifications and services rendered, (b) participate in full scale reviews of community mental health programs, and (c) provide management consultations to service providers. Service area staff can monitor utilization review systems during the other ongoing reviews and evaluations of provider and county programs.

Assistance in the development of policies and procedures can also be provided by the department's Divisions of Planning Development, Evaluation and Research staff. We recommend (a) deletion of the nine positions, (b) a reduction of $187,685 in the General Fund and (c) a reduction of $123,567 in federal reimbursements.

3. *Local Assistance.* The plan proposes to allocate $796,715 to populous counties to establish positions or contract for assistance in performing utilization reviews. Our analysis concludes that:

a. The need for funds remains unclear. Over 60 percent of Short-Doyle services are delivered by Short-Doyle Medi-Cal providers. According to the department, utilization review procedures will be implemented for all Short-Doyle Medi-Cal services by May 1980. These systems have been established within existing resources. Procedures still must be implemented for non-Medi-Cal services. However, we conclude that no additional funds are necessary to implement utilization review.

b. The level of funding necessary, if any, is unclear. If counties need additional funds to implement the utilization review systems, it is unclear how much support is required from the General Fund. Federal funds will defray 40 percent of the costs of Medi-Cal related services. The department has not provided any cost estimates for implementation of utilization review in the counties, and consequently, we cannot assess the level of General Fund support required.

c. The plan provides no specific information on how the department intends to use the local assistance funds. In adopting the 1979 Budget Act language reporting requirement, the Legislature expressed its intent that the department develop a specific proposal for use of the funds. The department has not provided any more information on the use of the funds to be allocated to counties than it submitted during prior budget hearings.

For the reasons stated above, we recommend deletion of the $796,715 budgeted for local assistance.

Client Information System

We recommend deletion of eight positions proposed for client information systems, for a General Fund savings of $355,639. We further recommend the addition of Budget Act language prohibiting additional data processing expenditures until the department submits a comprehensive management information systems plan to the Legislature.

The budget proposes seven new positions and $309,639 from the General Fund to establish a client information system at Metropolitan State Hospital, and one position and $46,000 from the General Fund to develop a statewide patient registry system.

In 1979–80, the department requested $1 million to establish a management information system at Metropolitan State Hospital for the current year. The Legislature denied the department's request because (1) there was no specific expenditure plan for the $1 million and (2) the Legislature believed that the department's greatest need was for a comprehensive management information system serving both hospitals and local programs. Subsequently, Chapter 1172, Statutes of 1979, was enacted which appropriated $300,000 to the department to contract with an independent organization for the development of a plan for a statewide management information system. Chapter 1172 stated that the preliminary design for the system was to be submitted to the Legislature by December 31, 1979.

The department did not submit the preliminary design on December 31, and, in addition, does not plan to issue the request for proposal to develop the design until February 1980. Once again, the department has failed to comply with a legislative directive.

The department has also proceeded with at least two data processing projects during the current year, *including the Metropolitan project specifically denied by the Legislature.* Equipment and software have been acquired to automate a number of functions at Metropolitan State Hospital. The department has also acquired another data processing package from IBM called the Executive Inquiry Network (EIN), and has contracted with the Health and Welfare Data Center for nine terminals to use that

DEPARTMENT OF MENTAL HEALTH—Continued

system. The EIN permits department executives to access statistical reports via computer.

By refusing authorization of the Metropolitan project during the current year and by providing funds for the development of a statewide management information systems plan, the Legislature clearly expressed its intent that data processing projects only proceed in the context of a comprehensive plan. By proceeding with new data processing projects in the current year, the department has incurred costs specifically denied by the Legislature. This is a clear violation of Control Section 15, which states: "No appropriation made by this act or any other provision of law may be combined or used in any manner to avoid budgeting the salary or operating expenses of any position or to achieve any purpose which has been denied by any formal action of the Legislature." It has also incurred costs before considering appropriate alternatives as all state agencies are required to do by Section 4 of the 1979 Budget Act and the State Administrative Manual.

We recommend deletion of the positions requested to develop the statewide patient registry system and the client information system at Metropolitan State Hospital, for a General Fund savings of $355,639, for the following reasons: (a) the department has failed to provide the management information systems plan required by the Legislature in Chapter 1172, and (b) the department has implemented a data processing project at Metropolitan despite clear legislative direction to the contrary.

We further recommend that the following Budget Act language be added to Item 300 to prohibit the department from proceeding with further data processing projects until it has developed a comprehensive management information system plan which identifies the department's information requirements and the manner in which these requirements will be met:

"Provided further that none of the funds appropriated by this item may be used for the acquisition of additional data processing equipment or services sooner than 30 days after the department has provided the Joint Legislative Budget Committee and the fiscal subcommittees a statewide management information systems plan which has received the approval of the State Data Processing Management Office."

Implementation of the plan will require feasibility study reports in accordance with Section 4 of the Budget Act and the State Administrative Manual.

Health Training Centers

We recommend Budget Act language requiring that the Health Training Centers be funded on a reimbursement basis beginning in 1981–82.

The department maintains two health training centers—one in Los Angeles and one in Berkeley—which are entirely supported from the General Fund. The centers, which have a total of 28 staff, provide training to federal, state, and local governmental entities and private human service professionals. The budget proposes $1,151,047 from the General Fund for support of the centers in 1980–81.

The centers were established in the early 1960's to train community mental health professionals in all sectors of public and private employment. When the centers were placed within the former Department of Health in 1973, their role was expanded to provide training for *all* human service professionals. In 1978, following the Health and Welfare Agency reorganization, the centers were located in the Department of Mental Health. They continue to provide training services in *all* of the human services areas for public and private employers.

Table 3 displays the types of human services delivered by persons who received training at the centers in 1978–79. Table 4 displays the sectors of employment for each trainee.

Table 3
Department of Mental Health
Health Training Centers
Trainee Characteristics by Program Area
1978–79

	Los Angeles		*Berkeley*		*Total*	
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*
Mental Health	1,360	29%	1,016	37%	2,376	32%
Developmental Services	516	11	112	4	628	8
Public Health	891	19	492	18	1,383	19
Substance Abuse	234	5	52	2	286	4
Social Services	891	19	625	23	1,516	20
Other	797	17	458	16	1,255	17
Total	4,689	100%	2,755	100%	7,444	100%

Table 4
Department of Mental Health
Health Training Centers
Trainee Characterstics by Sector of Employment
1978–79

	Los Angeles		*Berkeley*		*Total*	
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*
State	676	14%	412	15%	1,088	15%
Mental Health	(308)	(7)	(135)	(5)	(443)	(6)
Developmental Disabilities	(166)	(3)	(143)	(5)	(309)	(4)
Other	(202)	(4)	(134)	(5)	(336)	(5)
County	1,993	43	1,402	51	3,395	45
Private—Nonprofit	1,243	26	626	23	1,869	25
Private—Profit	—	—	83	3	83	1
Other	777	17	232	8	1,009	14
Total	4,689	100%	2,755	100%	7,444	100%

As these tables indicate, the centers provide most of their services: (1) to employees of agencies other than the Department of Mental Health (94 percent of the total), (2) in subject areas other than mental health (68 percent), and (3) to nonstate employees (85 percent). We do not believe it is appropriate for the General Fund to support services provided to nonstate employees. If the training centers are providing a valuable service, then user agencies should be willing to pay for their share of the cost on a fee basis. For example, county mental health programs can purchase

DEPARTMENT OF MENTAL HEALTH—Continued

training services from their share of the $355 million appropriated for local mental health programs. In addition, funds should not be provided in the Department of Mental Health's budget to support training services which benefit employees of other state agencies. Instead funds should be budgeted in the support items of the other agencies and transferred to the Department of Mental Health on a reimbursement basis.

Consequently, we recommend that all services provided to any agency other than the Department of Mental Health be funded on a reimbursement basis.

To provide the centers with sufficient time to phase in a different funding mechanism, we recommend that this shift occur beginning in the 1981–82 budget. Therefore, we recommend the adoption of the following Budget Act language in Item 300:

"The Department of Mental Health shall develop a fee shedule for services provided by the Health Training Centers and submit it to the fiscal subcommittees and the Joint Legislative Budget Committee by December 1, 1980. The department's 1981–82 budget shall provide General Fund support only for the cost of training departmental staff. The cost of providing training to staff of other agencies and private organizations shall be funded from fees and reimbursements."

Full Funding of the Continuing Care Services Section (CCSS)

We recommend deletion of 10 percent of the amount budgeted for the Continuing Care Services Section, for a General Fund savings of $1,565,288 in Item 302.

Background. Local programs in 35 counties contract with the department's Continuing Care Services Section (CCSS) to provide protective social services. County employees provide the same services in the other 23 counties.

Prior to 1978–79 the net cost of local programs was shared on the basis of 90 percent state and 10 percent county funding. SB 154 waived the local share for 1978–79, and Chapter 429, Statutes of 1979 (AB 1539) waived the local share for 1979–80 through 1981–82. The Legislature did not provide additional funds to offset the local share, but permitted counties to obtain state funding without providing a local match.

CCSS has experienced a funding deficit in both the 1978–79 and 1979–80 fiscal years. One of the major factors contributing to the deficit has been the loss of county funds. During both years, the department has redirected funds to cover the deficit. For example, in 1979–80, $1 million has been redirected from the state hospitals for this purpose.

Budget Proposal. The budget proposes $15,652,882 to fund CCSS in the budget year, which is a decrease of $1,160,541, or 6.9 percent, from the estimated current year expenditures. The department's budget office reports that the decrease results from a technical adjustment to procedures for allocating administrative overhead. The amount proposed to be available for services is actually the same as the amount budgeted in the current year. The amount proposed in the budget reflects 100 percent state funding for services provided by CCSS rather than 90 percent state funding as is budgeted for all other local programs.

Analysis. Our analysis indicates that the proposal to fund CCSS at 100 percent rather than 90 percent is inappropriate for the following reasons:

1. In enacting Chapter 429, the Legislature waived the 10 percent local share for local mental health services but made a conscious decision not to replace the local share with General Fund support. Instead, the Legislature expected the counties to use block grants appropriated by AB 8 to fund high-priority programs. This rationale continues to be valid.

2. All local programs were affected by the waiver of the 10 percent local share, not just services provided under contract with CCSS. No justification has been provided for increasing funds for one segment of local programs which is state-administered when comparable increases are not provided for other local programs.

For these reasons we recommend deletion of the additional 10 percent budgeted to support CCSS, for a savings of $1,565,288.

Manpower Project

We recommend that the department's budget be adjusted to reflect additional federal funds in the amount of $355,514 and that General Fund expenditures be reduced by $32,395 to reflect increased reimbursements for indirect costs (Item 300).

The department was awarded a $1.9 million grant from HEW in August 1979, to establish a five year mental health manpower project. Project expenditures are estimated at $332,256 in the current year and $355,514 in 1980–81.

Unbudgeted Federal Grant. The manpower project does not appear in the department's schedule of federal funds for the budget year. We recommend that federal reimbursements be increased by $355,514 to reflect the additional federal funds.

Unbudgeted Federal Funds for Indirect Costs. HEW includes funds in its grant allocations to defray indirect costs (such as personnel and accounting) which organizations incur in administering federal projects. For the current year, the indirect costs for the manpower project are estimated at $30,276. In the budget year these funds are estimated to be $32,395 which includes a seven percent cost-of-living adjustment. These federal funds should be treated as reimbursements to the General Fund because they are intended to cover costs that are financed with General Fund money in the budget. The department's 1980–81 budget fails to account for the decrease in General Fund expenditures made possible by receipt of the federal funds provided to cover indirect costs. Therefore, we recommend a reduction of $32,395 from the proposed General Fund appropriation to account for the federal reimbursement for indirect costs.

Equipment Purchases

We recommend that Item 300 be reduced by $139,783 to eliminate unnecessary equipment procurements and overbudgeted equipment leasing funds.

The budget proposes $425,579 for purchase of equipment during 1980–81, an increase of $64,460 over the current year. Our analysis of the proposed expenditures indicates that a number of the requests are unnecessary.

DEPARTMENT OF MENTAL HEALTH—Continued

Leasing Funds. The budget proposes $60,000 to purchase two IBM wordprocessors and $21,947 to purchase five facsimile copiers to replace machines presently leased. Staff are completing lease purchase analyses for the procurements and believe the studies will indicate that equipment purchase is the more economical alternative. However, the department has failed to adjust its budget to reflect any savings resulting from decreased leasing expenditures if the equipment is purchased. Leasing costs are $28,800 annually for the wordprocessors and $10,200 for the facsimile copiers. We recommend a reduction of *$39,000* for overbudgeted leasing funds.

Facsimile Copiers. Presently, the department has leased five facsimile copiers, including one for each of the two hospitals and one for each of its three Sacramento locations. The copiers are used to transmit information between the department's various locations. The budget proposes to replace the leased copiers with purchased copiers. Because the department will be consolidating into one Sacramento location when it moves into the Site 1-A building in 1980–81, it will need only three of the five proposed copiers. We recommend deletion of two of the copiers, for an additional savings of *$8,783.*

Reproduction Copiers. The budget proposes $30,000 to replace five reproduction copiers because of their age and condition. Although three of the five copiers are 14 years old, they were overhauled two years ago and are producing satisfactory copies. The fourth copier is ten years old but is used only by stockroom employees to reproduce bills of lading. The employees run 1,200 copies a month—which is 3,800 copies below the average monthly number normally produced on this type of machine. We question the need for a new machine when the existing machine is underutilized. The fifth machine is four years old and produces satisfactory copies. We recommend deletion of the *$30,000* requested for copier replacement.

Automobile Replacement. The budget proposes to replace 13 automobiles at a cost of $78,000. The Department of General Services requires that vehicles be driven 100,000 miles prior to replacement. Two of the cars requested have mileage levels of 84,000 and 77,000, respectively, and will not reach the 100,000 mile level before the end of the budget year. We recommend deletion of the *$12,000* budgeted to purchase the two replacement vehicles.

Screens and Lights. The department is requesting $50,000 to obtain 200 acoustical screens and 100 light units for its new location in State Office Building Site 1-A. Because funds to purchase these items were included in the supplemental appropriation to the Department of General Services for State Office Building Site 1-A under the provisions of Chapter 219, Statutes of 1977, we recommend deletion of the *$50,000* budgeted for screens and lights.

2. LOCAL MENTAL HEALTH PROGRAMS: ITEM 302

Proposed General Fund Support

The budget proposes $483,627,453 from the General Fund for assistance to local mental health programs in 1980–81, which is an increase of $54,219,604, or 12.6 percent, over estimated current year expenditures. The amount includes $128,705,533 for the state hospitals which we discuss on pg. 805. The amount budgeted for local mental health programs, excluding state hospitals, is $354,921,920, an incrase of $51,796,375, or 17.1 percent, over estimated current year expenditures. Major changes accounting for the increase are (1) $25,911,525 to provide a 9 percent cost-of-living increase for local progrms and (2) $25 million to augment local programs. Table 5 details proposed expenditure changes for local programs over the current year.

Table 5
Department of Mental Health
Local Mental Health Programs
(excluding state hospitals) [a]
Proposed General Fund Adjustments
1980–81

	Adjustment	*Total*
1979–80 Budget Base		$303,125,545
Baseline adjustments:		
OASDI	$22,492	
Merit Salary Adjustment	185,451	
Price Increase	335,453	
Section 27.2 Restoration	595,655	
Funding of Chapter 1233 Programs	204,799	
Cost of Living	25,911,525	
Budget Change Proposals		
Prevention	250,000	
Augmentation	25,000,000	
Program Transfer to CYA	−709,000	
Total Adjustments		$51,796,375
1980–81 Budget		$354,921,920

[a] Funds budgeted in local assistance for state hospitals provide an additional amount of $128,705,533 from the General Fund.

1979–80 Budget

In 1979–80, the Legislature provided $25 million to increase mental health local assistance programs, including $3.2 million for a variety of state and local program activities, and $21.8 million to develop alternatives to acute hospitalization. Of the $21.8 million, $15 million was allocated for community residential *treatment programs* and $6.8 million was allocated to supplement other available funds for community residental *treatment systems*. The difference between treatment programs and systems is primarily one of how funds are allocated. Under treatment programs, counties receive an on-going allocation to support community-based non-institutional programs to reduce hospitalization. Under treatment systems, counties propose community-based, non-institutional programs

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which are designed to provide a linking service in the local continuum of care. These proposals are then reviewed by a state-level advisory committee which submits its recommendation to the department director for final selection and approval. Once approved, these projects have been funded on an ongoing basis.

Treatment Programs. The $15 million for treatment programs was appropriated to reduce the need for 300 state hospital beds and utilization of local acute hospitals by developing alternative 24-hour community residential care programs. The Legislature added control language to the Budget Act which held the $15 million in reserve until further legislative action released it. The Legislature added the language because the department had not developed an expenditure plan. The department subsequently developed an allocation plan based on a methodology recommended by the Conference of Local Mental Health Directors. Chapter 1172, Statutes of 1979 (AB 1430), reappropriated the funds, and on September 30, 1979, the counties were authorized to spend the funds if their county plans had been approved by the department. Table 6 identifies how counties intended to spend the augmentation, according to their approved plans. As of January 24, 1980, the department indicated that $700,000 of this amount had actually been expended.

Table 6
Estimated Use of $15 Million Augmentation for Treatment Programs During Fiscal Year 1979–80

Community Residential Treatment Programs	
Local 24-hour Non-hospital Treatment	$8,294,311
Local 24-hour Non-hospital Treatment, geriatric	650,599
Children and Adolescent Residential Treatment	950,656
Quality Assurance	95,308
Community Support Services	
Outpatient and Day Treatment	1,496,674
Outpatient and Day Treatment, Children and Youth	168,051
Case Management	2,110,169
Outreach and Community Training	83,651
Outreach and Community Training, geriatric	124,694
Transitional Services	333,616
Extended Rehabilitation	188,232
Other (out-of-home enrichment, county administrative support, etc.)	139,243
Total	$14,635,194

At the end of November 1979, hospitals had verified a reduction of 218 beds. The Governor's Budget shows a reduction of 224 beds, and department staff estimate that hospitals will achieve the proposed goal of a 300 bed reduction during the current year.

The number of state hospitals has been declining annually since the sixties. In addition, achieving hospital reductions has been a federal and state priority since approximately 1963. The department data shows that the hospital beds declined by 218 with no more than $700,000 of the $15 million having been expended. As a result, it is not possible to attribute the ongoing hospital bed reductions to the $15 million augmentation in the current year.

current year.

Treatment Systems. Chapter 1233, Statutes of 1978 (AB 3052), was enacted to develop community treatment systems in order to reduce the need for hospitalization. In 1979–80, the Legislature provided an augmentation of $6.8 million for treatment systems. This was to supplement $3 million already included in the proposed budget plus $2 million which represented the unexpended balance available from Chapter 1233, for a total of $11.8 million for treatment systems programs. Chapter 1233 requires the department to evaluate the program by December 31, 1980. At the present time, no information is available to assess program impact.

Use of Savings Questioned. In a letter to local mental health program directors dated December 14, 1979, the director indicated that the department would be soliciting proposals for the use of an as yet undetermined amount of savings which are estimated to accrue during the current year within local programs. Departmental staff have indicated that the major portion of the savings will result from the augmentations provided in 1979–80.

We do not believe it is appropriate to reallocate funds provided for specific purposes to undetermined and possibly unrelated programs. If the department redirects the funds provided for treatment systems, to other programs, it may be difficult to identify what portion of the funds were expended specifically for the "treatment program" and "treatment systems". This will impair the department's ability to establish whether the augmentations have actually accomplished their purposes.

In the past we have noted that once "new" local assistance monies are provided for a specific purpose, the identity of such monies is soon lost and they simply become a part of the ongoing budget base. This results in subsequent requests for additional "new" monies for a specific need because funds already budgeted are not specifically identified for that purpose. As a result, the Legislature is continually on the defensive. This problem is compounded by the lack of adequate data on the use and impact of local assistance monies in the base (see below).

The department should be prepared to report during budget hearings on (1) the level and source of savings expected to be available during the current year, (2) the programs to be funded from that savings, and (3) the anticipated impact of these programs, expressed in a manner that the Legislature can use in determining program success or failure.

1980–81 Budget Proposal

We recommend deletion of the funds budgeted to augment local programs for a General Fund savings of $25 million (Item 302).

Budget Proposal. The budget proposes a total of $54,430,000 for alternative treatment programs which consist of the following components:

(a) a total of $16,350,000 to continue the $15 million for treatment programs provided in the current year for a 300 bed reduction, as adjusted for a nine percent cost of living factor.

(b) $13,080,000 to continue current year funds for treatment systems, as adjusted for cost of living.

(c) an augmentation of $15 million for treatment programs to further

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reduce hospital population during the budget year by an additional 600 beds. In a letter to our office dated January 11, 1980, the department director indicated that these funds would be allocated to those counties "which have demonstrated a critical need for reducing state hospital use."

(d) an augmentation of $10 million which the department indicates is associated with the $15 million continuing in the budget base. In a letter to our office dated January 11, 1980, the director stated that these funds would be used for the following four target areas: (1) further reduction of state hospital beds, (2) diversion of persons from criminal justice facilities to secured local treatment facilities, (3) case management, and (4) services for children and youth. The letter indicated that amounts specified for each area would depend on the needs identified in county plans and that funds would be allocated according to a methodology developed by the Conference of Local Mental Health Directors. The department further indicated it will give priority consideration to county proposals which would lead to further state hospital population reductions.

Analysis. We cannot recommend approval of the $25 million augmentation request for the following reasons:

1. *No relationship has been established linking the $15 million current year augmentation with the 300 hospital bed reduction.*

2. *The anticipated results in 1980–81 are not consistent with the results anticipated in 1979–80.* Even assuming a relationship does exist, it is unclear how $15 million in the current year results in a 300 bed reduction, or how an *additional* $15 million in the budget year would result in a *further* reduction of 600 beds. It would appear that, if $15 million can bring about a reduction in hospital beds of 600, the department has not used the $15 million provided for the current year for maximum effectiveness.

3. *The department cannot demonstrate the effectiveness of existing services.* It does not collect basic information necessary to evaluate the existing programs or use the information available to assess the cost effectiveness of different treatment programs.

4. *The department has made little progress in developing a management information plan to obtain the information necessary to demonstrate cost effectiveness.* As we have discussed in our analysis of the department's request for a client information system, Chapter 1172 required the department to contract with an independent contractor to develop a management information plan by December 1, 1979. Although the department has been aware of the requirement since May 1979 and was provided a $300,000 appropriation in Chapter 1172, staff are only now developing the request for proposal.

5. *Local programs could not spend effectively an additional $25 million in 1980–81.* The department is presently estimating savings for local programs in the current year resulting primarily from 1979–80 augmentations. Providing an additionl augmentation in the budget year before programs are able to fully spend the 1979–80 funds for ongoing projects would result in further overbudgeting in 1980–81.

6. *The information provided on the allocation and use of the augmentation is not adequate.* The department has not explained how bed reduc-

tions will be linked to the allocation of funds to counties which are high users of hospital beds. This information is necessary to evaluate the proposal because counties which overutilize hospital beds presently are not held strictly accountable for the extra costs. Moreover, the director presented a number of different methods for allocation of the $10 million—use of the Conference of Local Mental Health Directors' formula, review of county plans, distribution in four target areas. A more specific description of the method for allocation of the funds is necessary. Finally, the need to augment the $15 million provided in 1979–80, which is continued in the budget year, is not explained. The $15 million was justified on the basis that it was necessary to achieve a 300 bed reduction. According to department staff, the reduction will be made by the end of the current year. The department has not explained why an additional $10 million would be necessary for this purpose when $15 million plus a nine percent inflation adjustment has already been included in the budget base.

For these reasons, we recommend deletion of the $25 million budgeted to augment local programs. Our recommendation would provide for continued funding of the 1979–80 augmentation, adjusted for inflation. In future years, an evaluation of how these funds are used and the impact of new programs will provide the Legislature with a basis for considering whether further augmentations can be used effectively.

Short-Doyle Medi-Cal

Since 1971, reimbursements from the Medi-Cal program have paid for certain local mental health services. Counties pay for a service and then submit a claim to the Department of Mental Health. DMH reimburses the counties for 100 percent of their cost. Of this amount, 60 percent is from General Fund support budgeted in the Mental Health item and 40 percent is reimbursements from federal Medi-Cal funds budgeted in the Department of Health Services' item.

Withholding of Federal Funds. Contrary to information presented in the Governor's Budget, the state is not receiving federal funds for Short-Doyle Medi-Cal. Any services which receive federal Medi-Cal funds must be included in the Department of Health Services' Medi-Cal plan. Because Short-Doyle Medi-Cal services were not included in the plan, HEW has withheld payment of Short-Doyle Medi-Cal claims since the first quarter of fiscal year 1978–79.

In June 1979, DHS proposed an interagency agreement with the Department of Mental Health to amend the state plan, but HEW found the agreement inadequate. The department submitted new agreements to HEW in December 1979 to cover the periods 1978–79 and 1979–80. At the time this analysis was written, HEW had not indicated whether these agreements are acceptable. Subsequent approval of the agreements may not result in full restoration of the federal portion of Short-Doyle Medi-Cal funds or in retroactive federal reimbursement. HEW has notified DHS that additional information is necessary on specific types of services paid for under Short-Doyle Medi-Cal. HEW is currently auditing local mental health programs to review the kinds of services provided. In 1980–81, the federal share of Short-Doyle Medi-Cal funds is estimated to be 10 percent of the total Short-Doyle allocation.

Potential Budget Deficit. The Department of Health Services has loaned General Fund monies to the Health Care Deposit Fund to pay the federal share of Short-Doyle Medi-Cal claims since HEW began withholding payments in 1978. If HEW fails to pay all of the claims submitted for Short-Doyle Medi-Cal, sufficient funds will not be available to repay the General Fund loan. If any portion of the amount budgeted for the federal share from 1978–1981 is not reimbursed by the federal government, this will increase state expenditures and reduce the General Fund surplus. From 1978 through 1981, the estimated amount exceeds $100 million.

Table 7 displays the level of Medi-Cal funding as identified in the Governor's Budget for fiscal years 1978–79 through 1980–81.

Table 7
Estimated Medi-Cal Support for Short-Doyle Programs

	1978–79		*1979–80*		*1980–81*	
	Amount	*Percent*	*Amount*	*Percent*	*Amount*	*Percent*
Federal Share	$31,324,877	40%	$37,738,104	40%	$32,728,829	35%
State Share	47,517,856	60	55,658,620	60	60,667,895	65
Total	$78,842,733	100%	$93,396,724	100%	$93,396,724	100%

The department indicates that the figures published in the Governor's Budget are in error because a cost-of-living factor was applied only to the state share of expenditures when state, federal, and total expenditures should have been adjusted. If a cost-of-living increase is applied, federal funds would increase to $41,134,533, and total expenditures would increase to $101,802,496. The cost sharing ratio would then remain at the historic 60 percent state 40 percent federal ratio. During budget hearings, the department should be prepared to discuss Short-Doyle Medi-Cal's compliance problems and the potential deficit.

Prevention Programs

We recommend a reduction of funds budgeted for prevention projects, for a General Fund savings of $696,350: ($240,750 in Item 300 and $455,600 in Item 302).

Background. State requirements instruct counties to allocate Short-Doyle funds for prevention programs through their annual program plans. Table 8 shows county expenditures for local prevention programs.

Table 8
Expenditure of Short-Doyle Funds for Prevention

	Actual 1978–79	*Estimated 1979–80*	*Proposed 1980–81*
Amount	$19,949,182	$21,700,967	$24,153,230
Increase from Prior Year	—	$1,751,785	$2,452,263
Percent Increase from Prior Year	—	8.8%	11.3%

In addition to providing funds for the county prevention programs, the department established an Office of Prevention in a recent reorganization. The office, located in San Francisco, utilizes six positions (four professional and two clerical).

During hearings on the 1979–80 budget, the Legislature augmented the amount already included in the budget ($225,000) for department prevention programs by $750,000. The Governor vetoed the $750,000, but the Legislature subsequently appropriated an identical amount in Chapter 1172, Statutes of 1979 (AB 1438). Thus, the department has a total of $975,000 available for expansion of prevention programs in the current year.

Budget Proposal. The department is requesting $250,000 in addition to (1) the current year level of $975,000, and (2) $83,250 for a nine percent cost-of-living increase, to expand programs initiated in 1979–80, for a total of $1,308,250 for prevention programs.

We requested the department to detail the proposed expenditures for 1980–81. The data submitted accounted for only $1,067,500 of the $1,308,250 requested. We recommend deletion of the *$240,750* for which no justification was provided.

The programs for which supporting data have been provided include self-help networks, the Wellness Media Initiative, the Wellness Resource Center, and technical assistance to counties. The prevention of mental disabilities is a positive, economical and efficient approach to solving many of the problems encountered in the mental health system. We believe that the Legislature should encourage prevention projects which are sound in

Table 9
Department of Mental Health
Prevention Projects

Project	*Estimated 1979–80*	*Proposed 1980–81*	*Recommended Level 1980–81*
1. Self-Help Networks			
a. Conferencing	$50,000	$53,000	—
b. Research	50,000	53,000	—
c. Development	—	53,000	—
Total	$100,000	$159,000	—
2. Public Media Initiative			
a. Development	$350,000	—	—
b. Initiative Implementation	—	$414,570	$414,570
c. Evaluation	—	116,930	$116,930
Total	$350,000	$531,500	$531,500
3. Wellness Resource Center			
a. Inventory Resources	$60,000	$80,400	$80,400
b. Center Design	90,000	—	—
c. Implement Center Design	—	133,100	—
Total	$150,000	$213,500	$80,400
4. Technical Assistance			
a. Training	$50,000	$54,500	—
b. Evaluation	100,000	27,250	—
c. Support	0	81,750	—
Total	$150,000	$163,500	—
5. Unspecified	$225,000	$240,750	—
Total—All projects	$975,000	$1,308,250	$611,900

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concept and well planned. However, we cannot recommend a number of the projects proposed for 1980–81, because they do not meet the above criteria. Table 9 summarizes the proposed projects and the level of funding we recommend.

(1) *Self-Help Networks.* The budget estimates an expenditure of $100,000 in the current year consisting of $50,000 for "conferencing" and $50,000 for research. The following projects have been funded during the current year: (a) an educational seminar for corporate executives focused on mental and physical health in the workplace, (b) a statewide "Wellness Conference", (c) a public opinion research project entitled "In Pursuit of Wellness", (d) a survey to identify self-help groups in the state, and (e) a survey of service providers to obtain research data on the need for and efficacy of prevention.

In 1980–81, the department proposes expenditures of $159,000 for self-help networks; $53,000 for "conferencing", $53,000 for research, and $53,000 for development. The Office of Prevention staff report that the funds will be used to strengthen existing self-help groups, develop self-help groups in counties which lack them, and train mental health professionals to use self-help groups.

Our analysis does not indicate a need for the funding in the budget year. After the department completes its survey on self-help groups during the current year, local programs will be aware of the groups located in their vicinity. Access to this information should be sufficient to encourage local staff to refer clients to the groups when appropriate. Staff should not need special training to refer to self-help groups. Further research is not necessary because county staff working with their Service Area Teams and the Office of Prevention staff will be able to update the referral list for self-help groups. In addition, counties can use funds allocated to them for prevention activities through the county plan process to fund self-help groups if they so choose.

We recommend deletion of funds budgeted to develop self-help networks, for a General Fund savings of *$159,000.*

(2) *Public Media Initiative.* The department's 1979–80 budget contained $350,000 for a public media initiative. The department indicates it will use the funds for a contract to (a) develop media messages on the "health-enhancing and stress moderating aspects of supportive human interaction", (b) establish a plan for presenting the media messages on a statewide basis and (c) evaluate the project.

The 1980–81 budget proposes $414,570 to implement the plan developed in the current year and $116,930 to evaluate the project, for a total proposed expenditure of $631,500 for the Wellness Media Initiative.

The media approach to the prevention of illness has been proven effective for physical diseases, such as heart disease. We recommend approval.

(3) *Wellness Resource Center.* The department has budgeted $150,000 for the Wellness Resource Center in 1979–80. Of this amount, $60,000 is to inventory prevention resources and make them available to the counties and $90,000 is to design a center which maintains a computerized, up-to-date inventory of resources.

The 1980–81 budget includes $213,500 for this project which consists of $80,400 to continue efforts to inventory resources and provide them to counties and $133,100 to implement the system designed in the current year.

Our analysis concludes that a Wellness Resources Center linked via computer with the federal government, other states, universities, and private and county programs is unnecessary to provide local programs with information on prevention resources. Review of prevention resources during the current and budget years should provide staff of the Office of Prevention with sufficient information to meet local program needs. We recommend that $80,400 be approved in the budget for further review of prevention resources and deletion of *$133,150* budgeted for the Resource Center.

(4) *Technical Assistance to Local Programs.* The current year budget contains $150,000 for this area which consists of $50,000 to train staff in local programs and $100,000 to evaluate local prevention programs. As a result of the evaluations, the department will develop program guidelines for the county plan.

The department proposes $163,500 for this area in the budget year, which consists of $54,500 to continue training efforts, $27,250 to continue evaluation efforts and $81,750 to support local programs. Staff indicate the latter amount will be used to purchase tools and resources for local programs and to make special, one-time grants.

Our analysis indicates that the department has sufficient resources to provide technical assistance to local programs without additional positions or funds. The Office of Prevention and the regional Service Area Teams are already staffed to provide technical assistance to local programs. After the evaluations of local programs are completed during the current year, staff will be aware of program deficiencies and can work with local staff to correct them. There is no evidence to indicate that additional funds are necessary for training, evaluation or support. We recommend deletion of *$163,500* budgeted for technical assistance.

In summary, we recommend the following reductions: $240,750 for unjustified expenditures, $159,000 for self-help networks, $133,100 for the Resource Center, and $163,500 for technical assistance.

3. STATE HOSPITALS—MENTAL HEALTH: ITEMS 301 AND 302

General Description

The department operates two state hospitals (Metropolitan and Atascadero) and manages programs for the mentally disabled in four hospitals administered by the Department of Developmental Services which serve both the mentally and developmentally disabled. A discussion of issues affecting all state hospitals is found in our analysis of the Department of Developmental Services (pg. 758).

The budget proposes $184,386,003 from the General Fund for hospital programs serving the mentally disabled in 1980–81, which is $4,466,857, or 2.5 percent, over estimated current year expenditures. This amount includes $55,680,470 from Item 301 for support of Judicially Committed

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patients and $128,705,533 from Item 302 to support patients referred by local mental health programs. Table 10 displays General Fund expenditures for this program.

Table 10
State Hospitals—Mental Disabilities Program
General Fund Expenditures

	Actual 1978–79	*Estimated 1979–80*	*Proposed 1980–81*
Amount	$153,696,019	$179,919,746	$184,386,003
Percent Change Over Prior Year	16.4%	17.1%	2.5%

Table 11 shows adjustments to the current year base budget which were used to derive the proposed 1980–81 level of expenditures.

Table 11
State Hospitals—Mental Disabilities Program [a]
Summary of Budget Expenditure Changes
from the Current Year

1979–80 Budget Base	*Adjustment*	*Total*
Baseline adjustments:		$180,752,047
Benefits	$938,401	
Merit Salary Adjustment	2,412,326	
Price Increase (Operating Expenses)	2,967,858	
Section 27.2 Restoration	255,242	
Budget Change Proposals		
Atascadero Staffing Requests	315,712	
ACR 103 Pilot Project	1,108,326	
Staff Redirection for Area Teams (Support)	−328,478	
Total Adjustments		$7,669,387
1980–81 Expenditures		$188,421,434
General Fund		(184,386,003)
Reimbursements		(4,035,431)

[a] Includes $55,680,470 in Item 301 for Judicial Commitments, and $128,705,533 in Item 302 for Local Assistance.

Resumption of County Match. Existing law requires that local programs provide a minimum 10 percent match from local funds to obtain state hospital services for persons admitted to the hospitals. SB 154 waived the county match requirement for fiscal year 1978–79. AB 8 and Chapter 429, Statutes of 1979 (AB 1539) continued the waiver through December 31, 1979. As of January 1, 1980, however, local programs are again required to pay a minimum of 10 percent of the costs of state hospital services. The department estimates that it will receive reimbursements of $11,111,070 from local programs during the budget year.

Estimated Population Decline. The department estimates a 600 bed hospital reduction in the budget year. The proposed decrease would be the largest decline in recent years. Table 12 displays population declines from 1974–75 through 1980–81.

Table 12
State Hospital—Mentally Disabled Populations

	Actual 1974–75	*Actual 1975–76*	*Actual 1976–77*	*Actual 1977–78*	*Actual 1978–79*	*Estimated 1979–80*	*Proposed 1980–81*
Population	6,299	5,980	5,562	5,124	5,060	4,760	4,160
Reduction from prior year	−153	−319	−418	−438	−64	−300	−600
Percentage reduction from prior year	2.4%	5.1%	7%	7.9%	1.2%	6%	12.6%

Napa Pilot Staffing Project

We recommend deletion of the 92 positions budgeted to implement the first stage of a staffing pilot project at Napa, for a General Fund savings of $1,411,654 ($1,108,326 in Item 302 and $303,328 in Item 300).

Background. In 1978, the Legislature was informed that the staffing standards used by the Department of Health Services to assess the adequacy of staff levels in the state hospitals were inconsistent with the standards used by the Department of Mental Health. Consequently, the Legislature passed ACR 103, which required the Departments of Health Services and Mental Health to develop a revised, mutually acceptable method of staffing which met both client needs and licensing requirements.

The department submitted a report to the Legislature in April 1979, which (1) recommended the addition of 126.2 level of care staff and $1.7 million to meet licensing requirements and (2) proposed 130.7 positions and $1.2 million for a pilot project at Napa State Hospital to test an "optimum" staffing standard. After consideration of the requests during budget hearings, the Legislature approved the request for $1.7 million and 126.2 level-of-care staff, but denied the request for 130.7 positions and $1.2 million requested for the pilot project. Authorization to implement the pilot project was denied for two reasons: (1) the staffing was not required for licensing or certification, and (2) the cost of implementing the Napa model statewide would require an annual General Fund increase of approximately $40 million.

Budget Proposal. The budget proposes $1,411,654 to implement the first phase of a project to test an "optimum" staffing standard at Napa. Of the total amount, the budget proposes $303,328 for nine evaluation staff and $1,108,326 for 83 program staff at Napa to support the project for a half year beginning in January 1981. The pilot project would test the benefits of applying a staffing standard based on a "prescriptive model" derived from clinical judgments concerning patient needs.

According to the project manager, the department intends to phase in the model in four stages. During the first stage, to begin January 1, 1981, staff at Napa would be increased by one-fourth of the difference between existing standards and the proposed standards. The impact of the increased staffing would be evaluated after one year and the department would request additional funds to advance to the second stage during budget hearings in the Spring of 1982. During the second stage, staff at Napa would be increased by another one-fourth of the difference between existing standards and prescriptive model standards. The first stage would be implemented in all the other mentally disabled programs. Again after a year of operation, the department would evaluate the impact of the second stage at Napa and propose additional funds during budget hearings in the Spring of 1983 to advance to the third stage. The model would be fully implemented in all mentally disabled programs by January 1985.

DEPARTMENT OF MENTAL HEALTH—Continued

Analysis. Our analysis indicates that the department's proposal is deficient in the following respects:

1. *The department has not developed projections for the total project cost.* Last year, staff estimated that statewide implementation of the full standards would require $40 million annually. Since that time, hospital population and existing staffing have changed. The department has not revised its fiscal estimate and has no information available on the cost of the other three phases of the project.

2. *The hospitals have sufficient staff to meet licensing and certification standards.* The Legislature authorized (1) 3,054 staff and $41.7 million in 1977–78 to augment staff in all state hospitals, and (2) an additional 126.2 staff and $1.7 million for the mentally disabled programs in 1979–80, to provide the necessary staff to meet licensing and certification standards. The Department of Health Services has certified that the hospitals now have sufficient staff to meet federal and state requirements.

3. *The plan proposes to implement the pilot in the other state hospitals before it is adequately evaluated.* Operation of a project for one year would not produce conclusive data on project impact. Even if it did, however, the timing of the budget process does not permit sufficient time to operate for a full year prior to expansion. The plan provides that each phase will be implemented in all other state hospitals one year after the phase begins at Napa. To obtain funding for the other hospitals, however, the department would have to budget for expansion within months of the implementation at Napa.

4. *The department has not convincingly demonstrated the need for additional staff.* All agencies could claim that additional staff would improve service. The department has not demonstrated why additional staff are critical in this area.

For these reasons, we recommend deletion of the 92 requested positions, for a General Fund savings of $1,411,654 in Item 302.

Expenditure Reductions Due to Population Declines.

We recommend adoption of (1) Budget Act language requiring the department to reduce non-level-of-care staff to account for population declines, and (2) supplemental report language requiring the department to report on all cost categories affected by population declines.

Present Reduction Method. Populations in the hospitals have been declining steadily since the early 1960's. Data available from 1959–60 through 1980–81 indicate that the mentally disabled hospital population will have declined by 31,770 patients.

Traditionally, the department has reduced level-of-care staff in its annual budget to account for the anticipated population decline during the budget year. The 1980–81 reduction in level-of-care staff is 393.8 positions, for an annual savings of $7,057,091. The department will retain half of the funding—$3,529,546—to support temporary positions until the population decline meets the year end goal. The other half of the funding will be held in reserve and transferred to local programs if the anticipated population reduction occurs. In the 1981–82 budget year, the department indicates it will also transfer the remaining $3.6 million which funded the temporary positions in 1980–81 to the local programs.

Expenditure reductions should take into account all areas in which spending needs decrease as population declines, including *non-level-of-care* positions. The Department of Developmental Services has recognized the need to account for additional savings in 1980–81 by reducing non-level-of-care positions in its nine hospitals by 167.7 positions, for an annual savings of $2,882,064. (In our analysis of Item 297, we have recommended that the Legislature adopt supplemental report language requiring the department to report on all cost categories affected by population declines.)

Reduction Required. We requested the Department of Mental Health to calculate a non-level-of-care reduction for its hospitals using the same methodology as the Department of Developmental Services. In a letter dated January 11, 1980, the department indicated it could not comply with our request and stated that it "is presently developing staffing standards for non-level-of-care positions in state hospitals. When these standards are complete, we will be able to make all necessary and requested comparisons."

The future adoption of staffing standards should not preclude reducing non-level-of-care staff no longer necessary because of population declines. Populations have been declining since the sixties. Staffing, however, has increased. One of the major factors leading to staff augmentations in 1977–78 and 1979–80 was that level-of-care staff had been redirected to perform non-level-of-care functions. The department has been able to reduce level of care positions on an annual basis, despite shifting staffing standards for level-of-care positions and we see no reason why it cannot make similar reductions for non-level-of-care staff. If the department had reduced non-level-of-care staffing in the budget year using the methodology used by DDS, an additional $1.5 million would be available for transfer to local programs in the budget year, and $3 million the following year. We recommend adoption of the following Budget Act language to require DMH to reduce non-level-of-care positions.

> "Provided that the department annually reduce non-level-of-care positions to account for decreased expenditures resulting from population declines."

We further recommend that the Legislature adopt the following supplemental report language requiring the department to review all cost categories affected by population reductions.

> "The Department of Mental Health shall report to the Legislature by November 1 on (a) all cost categories in the state hospitals which are affected by population declines and (b) procedures for reducing expenditures in the budget."

Hiring-Above-the-Minimum-Blanket

We recommend deletion of the amount budgeted to fill new positions at salary levels above the normal entry level, for a savings of $474,000 in Item 302.

The amount budgeted in Item 302 for salaries in the hospitals is $474,000

DEPARTMENT OF MENTAL HEALTH—Continued

higher than the amount shown in the preliminary Wages and Salary Supplement (Schedule 2) supplied by the Department of Finance. The department indicates that the copy of the supplement supplied to us is outdated and fails to include a $474,000 blanket amount budgeted to fill vacant positions at salaries above the minimum.

Departments normally are required to fund positions filled at above-minimum salaries from the salary savings which occur throughout the year from vacant positions. Because the state hospitals received a large number of new positions in 1977–78 and 1979–80, the Department of Developmental Services (DDS) established a blanket fund in each of those years to cover the extra costs of hiring a large number of new positions at levels above the minimum. DDS is eliminating the blanket this year, however, because the positions have been filled and the higher salary levels have been incorporated in the salary estimates for each position.

The budget year is the first in which the Department of Mental Health has established a blanket for above-minimum salaries. Our analysis does not indicate the need for the blanket. As with DDS, the large numbers of new positions authorized in prior years have been filled. The salary cost of positions filled above the minimum level can be funded from savings which occur throughout the year. Therefore, we recommend deletion of the budgeted amount for a General Fund savings of $474,000.

Prohibited Administrative Positions

We recommend deletion of one position and funds budgeted for an administrative position prohibited by statute, for a savings of $47,776 in Item 302.

Section 4301 of the Welfare and Institutions Code authorizes two administrative positions for each state hospital—a clinical director and a hospital administrator. The code requires that one of the two positions be designated as the hospital director. Despite the provisions of Section 4301, a number of the state hospitals have continued to establish a third, separate position for the hospital director.

In 1977, the Legislature further expressed its intent that the hospitals should utilize only two positions by adding language to the 1977 Budget Act which stated:

> "Provided further, that the State Department of Mental Health shall comply with the provisions of Article 3 (commencing with Section 4300) of Chapter 2 of Division 4 of the Welfare and Institutions Code; and provided further, that no position shall be administratively established nor shall any authorized position be redirected to replace the person appointed as chief executive officer of the state hospital."

This language has been included in each Budget Act since 1977.

Metropolitan State Hospital continues to use a separate position for the hospital director, contrary to state law. The hospital has redirected a position from elsewhere in the hospital to perform the duties of clinical director and uses established positions for the hospital administrator and executive director.

If the department believes that an additional position is essential for the proper administration of the hospital, it should seek legislation to repeal the requirements of Section 4301. Until such legislation is enacted, the department should cease using positions in violation of the law. We recommend deletion of the position, for a savings of $47,776 in Item 302.

Community Planning Program

We recommend deletion of funds requested to support four positions at Atascadero for the Community Planning Program, for a General Fund savings of $86,765 in Item 302.

Since 1974 the department has used five positions funded by a grant from the federal National Institute of Mental Health to provide supervision for paroled patients and patients placed on outpatient status from Atascadero. The grant expires during the current year and the department is requesting General Fund support for four positions to maintain the program.

Hospital responsibility for paroled patients and patients on out-patient status was established by Chapter 1291, Statutes of 1978, which requires hospitals to (1) designate a person to function as out-patient supervisor for the patient (2) make progress reports on the patient every 90 days (3) revoke outpatient status when appropriate and (4) recommend release when appropriate.

When the Legislature considered Chapter 1291, the department indicated that the measure would result in estimated costs of $50,000, which could be absorbed within existing resources. Consequently, we recommend that the department fund the positions within existing resources, as it advised the Legislature it could, for a General Fund savings of $86,765 in Item 302.

Non-Level-of-Care Positions

We recommend deletion of funds budgeted for 12 non-level-of-care positions at Atascadero, for a General Fund savings of $228,997 in Item 302.

The department proposes 12 non-level-of-care positions at Atascadero including (1) six positions to increase the plant operations staff (five painters and one refrigerator engineer), (2) two positions for pharmacy, (3) three positions for the Protective Services Control Room and (4) one position for the fire department.

As discussed previously, the department is in the process of developing standards for all non-level-of-care positions pursuant to requirements of ACR 103. The department indicates the standards should be completed within the current fiscal year. Existing hospital staffing levels have not been based on workload standards. For instance, Camarillo has nine painters while Atascadero has only two. Table 13 displays existing staffing for some of the areas in which Atascadero is requesting increased positions.

Until the department develops non-level-of-care staffing standards, any augmentation of non-level-of-care staff would be premature. These standards will enable inequities in existing staffing to be rectified by redirecting positions from some hospitals with excess staff to hospitals with staffing deficiencies. The department should request additional positions only if there are insufficient non-level-of-care staff on a statewide basis. Atas-

DEPARTMENT OF MENTAL HEALTH—Continued

Table 13
Staffing of Certain Functions
All Hospitals

	Fire	*Painters*	*Pharmacy*	*Refrigerator Engineers*
Agnews	7.6	4	6	2
Atascadero	6.5	2	4	1
Camarillo	7	9	5	1
Fairview	1[a]	6	5	1
Lanterman	1[a]	7	13	3
Metropolitan	1[a]	7	27.5	2
Napa	7.6	7	7	2
Patton	1	8	7	2
Porterville	6	5	7	1
Sonoma	7	8	10	4
Stockton	1[a]	7	5	2

[a] Hospitals contract for fire protection services.

cadero's staffing needs should be met by this process. Therefore, we recommend deletion of the 12 positions for a General Fund savings of $228,997.

Special Repair at Metropolitan State Hospital

We recommend deletion of funds budgeted in the special repairs category for painting at Metropolitan, for a savings of $30,000 in Item 302.

The department has budgeted $30,000 in the special repairs category to contract for painting of numerous buildings at Metropolitan. The department's justification for the request states that Metropolitan has an insufficient number of painting staff and that consequently ongoing painting tasks at the hospital cannot be performed.

The special repairs category was established to provide funds for nonroutine, one-time expenditures which could not be performed by hospital employees. Ongoing maintenance work should be performed by the hospitals' plant operations staff. The department is presently reviewing staffing levels for non-level-of-care staff and will be proposing staffing standards within the current year. If the standards indicate that Metropolitan has insufficient staff to perform maintenance functions, the department should either justify new positions through the budget process or redirect positions from other state hospitals. We recommend deletion of the funds budgeted for painting contracts.

4. LEGISLATIVE MANDATES: ITEM 303

We recommend approval.

The department proposes $313,660 to reimburse the cost of two local mandated programs. This amount includes: (a) $283,660 for costs resulting from Chapter 1061, Statutes of 1973, which requires local programs to provide specified services and administrative positions, and (b) $30,000 for costs resulting from Chapter 991, Statutes of 1979 which established a special due-process procedure to extend commitments of mentally disordered sex offenders.

Health and Welfare Agency

EMPLOYMENT DEVELOPMENT DEPARTMENT

Items 304 and 307 from the General Fund, Item 305 from the EDD Contingent Fund, and Item 306 from the Unemployment Compensation Disability Fund — Budget p. HW 112

Requested 1980–81	$74,928,534
Estimated 1979–80	69,274,698
Actual 1978–79	44,911,825
Requested increase (excluding amount for salary increases) $5,653,836 (+8.2 percent)	
Total recommended reduction	$1,420,653

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
304	Employment Development Department	General	—
304a	Work Incentive Program		$4,711,994
304b	Service Center Program		5,353,900
304c	State Office of Economic Opportunity		441,250
304d	Job Agent		2,183,698
304e	Youth Employment and Development		5,000,000
304f	Contractors Law Enforcement		343,868
304g	California Jobs Tax Credit		185,581
	Total, Item 304		$18,220,291
305	Pro Rata Charges and Benefit Payment Control	EDD Contingent	5,098,495
306	Support Disability Insurance Operations	Unemployment Compensation Disability	37,089,748
307	Legislative Mandates	General	6,520,000
	Chapter 1181, Statutes of 1979	General	8,000,000
	Total		$74,928,534

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Legal Services Overbudgeted. Reduce Item 304 by $60,288.* Recommend reduction of funds overbudgeted for Attorney General services. 824
2. Census Outreach. Recommend EDD report prior to budget hearings on specified factors causing delayed implementation of the census outreach project. 824
3. *Contractors Law Enforcement. Reduce Item 304 by $343,868.* Recommend deletion of 16 positions and General Fund support because program results lack documentation. 825
4. *Worksite Training. Reduce Item 304 by $1,016,497.* Recommend deletion of reimbursements proposed to augment the California Worksite Education and Training Act program. 826

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

GENERAL PROGRAM STATEMENT

The Employment Development Department (EDD) is responsible for (1) providing a labor exchange mechanism for job seekers and employers, (2) helping welfare recipients and other disadvantaged persons to become self-sufficient through job training and employment, (3) administering the claim-payment phase of the Unemployment Insurance (UI) and Disability Insurance (DI) programs, and (4) administering the tax collection and accounting functions under the DI, UI and Personal Income Tax withholding (PIT) programs.

The department acts under the authority of the federal Wagner-Peyser Act, the Comprehensive Employment and Training Act of 1973, the Social Security Act, and the Community Services Act of 1974. In addition, the department operates under the State Employment Act of 1973 and related state statutes and administrative codes. Departmental functions are carried out through six programs: (1) Employment and Employment-Related Services, (2) Tax Collection and Benefit Payments, (3) Contract Services, (4) State Office of Economic Opportunity, (5) Contingent Fund Transfer, and (6) Administration.

Employment and Employment-Related Services Program

The Employment and Employment-Related Services program provides comprehensive statewide and local manpower planning, improves the efficiency and accountability of delivery systems for manpower programs, places job-ready individuals in suitable jobs, provides names of qualified job applicants to potential employers, and assists potentially employable individuals to become job ready.

Tax Collections and Benefit Payments Program

The tax collections and benefit payments program collects employer and employee contributions made to the Unemployment and Disability Insurance Funds and pays unemployment and disability insurance benefits.

Contract Services Program

The contract services program performs services for other agencies, including collection of the personal income tax for the Franchise Tax Board, and receives reimbursement for any costs incurred.

State Office of Economic Opportunity Program

The State Office of Economic Opportunity (SOEO) provides the link between federal programs which provide financial aid to low-income persons and local agencies which provide services to this target group. SOEO assists low-income persons through special direct service projects in such areas as energy conservation and housing. In addition, it provides training and technical assistance to local anti-poverty agencies.

Contingent Fund Transfer Program

This program collects interest and penalties on contributions from employers who fail to submit payroll taxes in a timely manner. When this fund's balance exceeds $1 million, the excess is transferred to the Unemployment and Disability Insurance Funds. The Contingent Fund pays for capital outlay and various other charges not funded by the federal government.

Administration Program

This program provides executive direction, fiscal and personnel management, automatic data processing, management analysis, public information and other support services.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures totaling $74,928,534 from various funds for support of the Employment Development Department in 1980–81, which is an increase of $5,653,836, or 8.2 percent, over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. The increase consists of a $5.8 million increase in costs for administering the unemployment insurance program (payable from the Unemployment Compensation Disability Fund), a General Fund increase of $2.2 million primarily related to new statutory requirements, and an offsetting $2.3 million decrease in state support from the Contingent Fund.

The budget proposes a $32,740,291 appropriation from the General Fund in 1980–81, which is an increase of $2,154,081, or 7 percent, over estimated current year expenditures. The primary factors contributing to this increase are:

(1) expansion of the tax collection and benefit payments program to provide increased services in response to new statutory requirements,

(2) increased state matching requirements for the State Office of Economic Opportunity (SOEO),

(3) additional reimbursent of state mandated local costs related to the unemployment insurance program, and

(4) offsetting reductions reflecting decreased program activity for SOEO's census outreach project, the Alameda County Displaced Homemakers Center, and the California Worksite Education and Training program. Table 1 details the proposed General Fund adjustments for the budget year.

Table 2 details the department's proposed 1980–81 funding and expenditures, including funds not appropriated in the Budget Bill which total $2,568,327,209. The total expenditure program is proposed to increase in the budget year by $287,149,516, or 12.6 percent, over estimated current year expenditures. This increase is largely attributable to the increased benefits in unemployment and disability insurance.

New Positions

Table 2 also shows that personal services are proposed to increase by 272 personnel-years. This increase is attributable to the following factors. First,

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 1
Proposed General Fund Adjustments for the Employment Development Department Support Budget
1980–81

	Adjustment	*Totals*
1979–80 Current Year Expenditures		$30,586,210
1. Baseline Adjustments for Existing Programs		
A. Increase in existing personnel costs		
1. Merit salary adjustments	$173,919	
2. OASDI	28,450	
3. Retirement	32,613	
4. Workers' compensation	1,409	
5. Unemployment compensation	1,828	
6. Health benefits	12,980	
7. Nonindustrial disability insurance	748	
Subtotal		$251,947
B. Operating expense and equipment		
1. Support related	$140,424	
2. Client related		
a. Work Incentive and related programs	5,563	
b. Service center	−27,595	
c. Youth Employment and Development	−95,885	
d. California Worksite Education and Training Program (CWETA)	−2,011,704 [a]	
e. Displaced homemakers	−50,000 [b]	
Subtotal		$−2,039,197
2. Program Change Proposals for 1980–81		
A. California State Office of Economic Opportunity	$−364,250	
B. Tax collections and benefit payments program	4,320,000	
C. General employment services—California Jobs Tax Credit	−14,419	
Subtotal Budget Change Proposals		$3,941,331
3. Total, Budget Change Proposed for 1980–81		$2,154,081
4. Total, General Fund		$32,740,291

[a] CWETA (Ch. 1181/79) appropriated $25 million without regard to fiscal year of which $10 million is budgeted in FY 1979–80, $8 million in FY 1980–81, and $7 million in FY 1981–82.
[b] Program funding discontinued 1980–81.

the Tax Collection and Benefit Payments program requests 386.7 additional positions due to normal workload increases and anticipated workload increases resulting from new legislation. Second, the Contract Services program proposes to add 40.3 new positions because of an anticipated increase in the number of employers participating in the program. Conversely, the Employment and Employment-Related Services program proposes to eliminate 151.9 positions due to a decline in contractual prime sponsor services and public service employment. Similarly, the State Office of Economic Opportunity proposes to delete 3.2 positions when the one-year census outreach project is concluded. The net effect of these changes is an increase of 272 positions for the budget year. Based on our review, we recommend approval of the proposed position increases.

Table 2
Employment Development Department
Budget Summary

Funding	*Estimated 1979–80*	*Proposed 1980–81*	*Change from Current Year Amount*	*Change from Current Year Percent*
General Fund	$30,586,210	$32,740,291	$2,154,081	7.0 %
Unemployment Compensation Disability Insurance	525,471,439	634,317,748	108,846,309	20.7
EDD Contingent Fund	8,503,813	5,279,000	−3,224,813	−37.9
School Employees Fund	19,683,050	21,595,371	1,912,321	9.7
Local Public Entity Employees Fund	4,341,927	5,350,598	1,008,671	23.2
Federal Funds	1,640,318,375	1,817,901,418	177,583,043	10.8
Reimbursements	52,272,879	51,142,783	−1,130,096	−2.2
Totals	$2,281,177,693	$2,568,327,209	$287,149,516	12.6 %
Programs/Components				
1. Employment and Employment Related Services	$321,005,671	$302,876,767	$−18,128,904	−5.6 %
Personnel-years	5,822.3	5,670.5	−151.8	−2.6
General employment	85,755,441	87,507,781	1,752,340	2.0
Special employment	90,986,779	95,423,686	4,436,907	4.9
Governor's special CETA grants	35,351,896	37,094,464	1,742,568	4.9
Balance of state	48,258,463	51,496,634	3,238,171	6.7
Contracted prime sponsor services	20,695,094	20,488,564	−206,530	−1.0
Public service employment	39,957,998	10,865,638	−29,092,360	−72.8
2. Tax Collection and Benefit Payments	1,930,778,879	2,236,144,855	305,365,976	15.8
Personnel-years	6,391	6,777.7	386.7	6.1
Unemployment insurance	1,401,906,055	1,599,412,152	197,506,097	14.1
Disability insurance	525,852,852	634,701,489	108,848,637	20.7
Former inmates	2,683,832	1,687,346	−996,486	−37.1
Contractors law enforcement	336,140	343,868	7,728	2.3
Administrative Distribution	(13,328,238)	(14,481,399)	(1,153,161)	8.7
3. Contract Services	11,450,054	12,529,534	1,079,480	9.4
Personnel-years	433.8	474.1	40.3	9.3
Personal income tax	10,193,076	11,257,484	1,064,408	10.4
Other contract services	1,256,978	1,272,050	15,072	1.2
Administrative Distribution	(806,344)	(890,875)	(84,531)	10.5
4. Office of Economic Opportunity	12,770,597	14,907,519	2,136,922	16.7
Personnel-years	96.4	93.2	−3.2	−3.3
State agency assistance	1,654,767	1,516,026	−138,741	−8.4
Census outreach	650,000	—	−650,000	−100.0
Community services	1,102,387	1,108,813	6,426	0.6
Energy conservation and weatherization	9,363,443	12,282,680	2,919,237	31.2
5. Contingent Fund Transfer	5,172,492	1,868,534	−3,303,958	−63.9
6. Administration	(24,865,764)	(26,009,267)	(1,143,503)	4.6
Personnel-years	(949.8)	(972.2)	(22.4)	2.4
Totals	$2,281,177,693	$2,568,327,209	$287,149,516	12.6
Personnel-years	12,743.5	13,015.5	272	2.1 %

Local Mandates

Various local entities, including school districts, special districts and municipalities, reimburse the Unemployment Insurance Fund for the actual cost of unemployment insurance benefits received by their former employees. Where these costs can be attributed to liberalized benefit entitlements mandated by the state, the state is required to reimburse local governments for their costs.

The budget proposes $6,520,000 to reimburse local government entities for mandated local costs. This is an increase of $4,320,000, or 196.4 percent, over estimated expenditures in the current year. This increase is due to the enactment of Chapter 1053, Statutes of 1979 (AB 759), which expanded the benefits available for unemployed individuals, including local government employees.

Energy Crisis Assistance Program

Through a continuing resolution (House Resolution 4930), Congress recently allocated $250 million to the federal Community Services Administration for support of the Energy Crisis Assistance Program for low-income persons.

Current Program. EDD's State Office of Economic Opportunity (SOEO) currently has an energy program which aids the counties in meeting the fuel needs of low-income persons. This program was budgeted at $851,425 in 1979–80 and $7,750,652 in 1980–81.

Section 28 Notification. In a letter dated January 10, 1980, the Director of Finance requested a waiver of the 30-day waiting period established by control Section 28 of the 1979 Budget Act so that EDD could increase federal expenditures by $10,994,400 ($7,068,560 in 1979–80 and $3,925,840 in 1980–81) for energy assistance payments on behalf of low-income persons. The funds will be used to (1) make payments to vendors and suppliers of fuel, goods and other services, (2) establish lines of credit with fuel/utility vendors for the benefit of eligible households, (3) provide immediate emergency assistance in the form of goods or services such as emergency fuel deliveries, blankets and warm clothing, temporary shelter, food, and medicines, in order to prevent hardship or danger to health. None of these payments will be made directly to clients.

The new funds made available to the state under the federal Energy Crisis Assistance Program increase SOEO's estimated current year expenditures for energy assistance to $7,919,985 and proposed budget year support to $11,676,492. Due to the timing of the federal grant award, the proposed 1980–81 budget does not include these additional funds.

SOEO has estimated it will need 12.5 positions to administer the program at the state level. Of these, 5.5 are existing positions and 7 are new positions which will be administratively established in the current year and continued in the budget year. These new positions are not included in the proposed budget.

Additional federal funds, totaling $3,975,255, are anticipated in the current year for the Energy Crisis Assistance Program pursuant to Public Law 96-126 which provides financial assistance to low-income persons for energy costs during the 1980 federal fiscal year. These funds, however, have not yet been received.

Legislative Follow-Up

The Supplemental Report of the 1979 Budget Act contained eight directives to EDD. These directives, and the department's responses to date, are as follows:

1. *Public Works Employment Act (PWEA) Title II Funds.* EDD was directed to identify and transfer unspent funds requested for the Displaced Public Employees' Project to the PWEA Administrative Fund for reallocation. The department has identified $1.6 million in unspent funds and has made the required transfer.
2. *Evaluation Design for Cost-Effectiveness Comparison.* The department was required to develop an evaluation design for (a) comparing the cost-effectiveness of various job training programs, (b) utilizing intensive manpower services, and (c) sampling successful closures in the Work Incentive program. EDD complied with the first two requirements and is in the process of developing a successful closure sampling design.
3. *Successful Service Center Closures.* EDD was directed to develop a system to track successful service center closures (program graduates) over a six-month period and assess the quality and long-range impact of job placements. The evaluation design was submitted to the Legislature on May 18, 1979. The department has indicated that it is in the process of completing a report on successful service center closures.
4. *State Office of Economic Opportunity (SOEO)—State Plan.* SOEO was directed to submit a state plan of action, including planned program accomplishments, for fiscal year 1979–80. The office also is required to report its progress in accomplishing these objectives by February 1, 1980. SOEO submitted its state plan of action to the Legislature on February 1, 1980. The second report is in progress.
5. *SOEO Statewide Training Programs.* The Legislature required SOEO to develop a statewide training program addressing specified needs. The training plan was submitted to the Legislature on February 1, 1980.
6. *Evaluation of State Funded Youth Employment Projects.* EDD was directed to report the findings of evaluation reports on state funded youth employment projects, including information on future funding requirements and the relationship between state and federal youth employment programs. EDD submitted the report on January 2, 1980.
7. *Census Outreach Program.* This program was directed to target its efforts on those areas within the state where there had previously been a significant census undercount of specified groups. The department has not provided any documentation that this has occurred.
8. *Comparative Job Placement Data.* EDD was directed to compare the permanent placement rates of the Work Incentive (WIN) program and the jobs program administered by the State Personnel Board. EDD provided this data on January 16, 1980, as discussed in our analysis of the jobs program (Item 140).

IMPACT OF RECENT LEGISLATION

Tax Credit

Chapter 1182, Statutes of 1979 (SB 93), appropriated $200,000 from the General Fund to EDD to administer a tax credit program. The program permits an employer who hires specified public assistance recipients, certified by EDD, to receive a credit in an amount equal to 10 percent of the wages paid to such an employee. The program will remain in effect until December 31, 1984. The fiscal effects of this tax credit will include:

- loss of tax revenues as a result of the credit
- savings in state costs to the extent the program reduces the number of persons receiving welfare payments. The Department of Finance has estimated that the net fiscal effect of the program is a loss of tax revenue of $550,000 in 1979–80, $2.3 million in 1980–81, and $4.6 million in 1981–82.
- increased personal income and sales tax revenues, to the extent new jobs are created
- increased administrative costs.

Unemployment Insurance (UI)

Revenues to the Unemployment Insurance (UI) Fund are generated through employer payroll taxes. The fund operates on an insurance principle, building reserves during periods of economic expansion. The tax rate for an individual employer is based on the amount of benefits paid to the employer's former employee's over time.

Chapter 754, Statutes of 1979 (AB 598), reduces the UI benefits payable to an individual by the amount of any pension, retirement, annuity or other similar periodic payment received by the individual based on previous work. The act disqualifies approximately 38,000 new UI claims and reduces the benefits to another 27,000 claimants, for an estimated annual savings of $45.6 million.

Chapter 1053, Statutes of 1979 (AB 759), increases Unemployment Insurance benefit and eligibility requirements, changes the procedure for computing earnings when determining the weekly benefit amount to a claimant, and lowers the employer tax contributions. The benefit increases are anticipated to cost the UI Fund $57.8 million in 1980, $96.2 million in 1981, and $120.1 million in 1982. It is estimated that the change in computation of earnings will cost the UI Fund $2.5 million annually. In addition, the change in employer tax rate contributions is expected to result in a revenue loss of $276 million to the UI Fund in 1980.

Disability Insurance (DI)

Employer payroll taxes are shown as revenues to the Unemployment Compensation Disability Insurance (DI) Fund. The fund operates on an insurance principle, building reserves during periods of economic expansion.

Chapter 1051, Statutes of 1979 (AB 758), increases the earnings limitation provisions utilized in computing the maximum level of benefits in the DI program, and is estimated to cost $6.7 million from the Unemployment Compensation Disability (DI) Fund in 1980.

Chapter 1049, Statutes of 1979 (AB 780), increases DI benefits by waiving the one-week waiting period for any disability which exceeds 49 days (7 weeks) thus, allowing a claimant to receive two weeks' benefits for the eighth week of disability. In addition, it extends the benefit period and raises the maximum weekly benefit level. It is estimated that these benefit adjustments will result in an increase to the DI Fund of $62.1 million in 1980.

Chapter 663, Statutes of 1979 (AB 1353), repealed the six-week limitation on the payment of disability benefits resulting from normal pregnancy under the State Disability Insurance and Nonindustrial Disability Insurance (NDI) programs. It is estimated that this act will result in costs of approximately $27.6 million payable from the DI Fund in 1980. The act appropriates $1,505,000 from the General Fund to the Department of Finance for fiscal years 1978–79 and 1979–80 to cover benefits paid to state employees under the NDI program.

Chapter 1055, Statutes of 1979 (AB 298), provided for a one-time refundable personal income tax credit to employees who contribute to the Unemployment Compensation Disability Fund during 1979. The loss of personal income tax revenues to the General Fund—estimated at $528.5 million in 1980—will be reimbursed from the DI Fund.

Worksite Education and Training

Chapter 1181, Statutes of 1979 (SB 132), the California Worksite Education and Training Act (CWETA), declares that it is the policy of the state to provide job training programs which integrate classroom instruction with entry level and career worksite training for youth and the economically disadvantaged. The act permits applicants to receive financial assistance to implement an integrated classroom and career worksite training program developed pursuant to specified criteria.

Chapter 1181 appropriates $25 million from the General Fund, without regard to fiscal year, to the Employment Development Department (EDD) to carry out these provisions, and specifies that 90 percent of the appropriation shall be spent in urban areas and the remaining 10 percent shall be spent in rural areas. The act further requires EDD to prepare a preliminary report to the Joint Legislative Budget Committee by March 5, 1980, and an annual report to the Legislature and other interested parties with respect to the impact and cost-effectiveness of this program. This chapter shall remain in effect until September 1982.

FUND CONDITION

Unemployment Insurance Fund

Table 3 shows (1) the UI Fund balance as of December 1979, (2) projected revenues and disbursements in 1980 and (3) the fiscal impact of Chapters 754 and 1053. Even though the Department of Finance is projecting a mild recession for California, the budget anticipates that the fund balance will increase by $368,228,000, or 14.8 percent, in calendar year 1980, bringing the total to $2,855,930,000.

Disability Insurance Fund

It is estimated that there will be a net ending balance of $390.7 million in the DI Fund at the conclusion of calendar year 1980.

Table 4 indicates the impact of the four statutes enacted during 1979 on the DI Fund over a three-year period, and shows the accumulated surplus. The table also shows the effect on the surplus of holding different amounts in reserve for potential claims activity.

29-80045..

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 3

Summary of Unemployment Insurance Fund Forecast [a]

Fund Balance as of December 30, 1979		$2,487,702,000
Projected revenue in 1980	$1,872,000,000	
Change in tax schedule (Ch. 1053/1979)	−276,000,000	
Total 1980 Revenue	$1,596,000,000	
Total Disbursements in 1980	$1,227,772,000	
Projected disbursements in 1980	(1,213,072,000)	
Benefit and eligibility changes (Ch. 1053/1979)	(57,800,000)	
Earnings disregard (Ch. 1053/1979)	(2,500,000)	
Eligibility limitation (Ch. 754/1979)	(−45,600,000)	
Difference	368,228,000	
Fund Balance as of December 30, 1980		$2,855,930,000

[a] Fund balance figures are based upon the November 1979 forecast. Legislative bill estimates are based upon available data in September 1979.

An accumulating surplus indicates that the present tax structure is collecting too much in contributions. Trends in this surplus should continually be examined so that funds collected can be used more effectively or tax rates can be reduced when balances are too high.

Table 4

Unemployment Compensation Disability Fund Balance
Estimated Impact of 1979 Legislation [a]
(in millions)

	Calendar Year		
Fund Status	*1980*	*1981*	*1982*
Starting year balance	$634.1	$390.7	$551.2
Income	782.0	804.6	827.2
Subtotals	$1,416.1	$1,195.3	$1,378.4
Disbursements	485.5	529.4	530.5
One-Time Tax Credit (Chapter 1055/1979)	443.5 [b]		
Benefit and Eligibility Increases (Chapter 1051/1979) (Chapter 1049/1979) (Chapter 663/1979)	96.4	114.7	139.4
Subtotals	−1,025.4	−644.1	−669.9
End of Year Balances	390.7	551.2	708.5
End of Year Surplus with 25 Percent Reserve	245.2	390.2	541.0
End of Year Surplus with 50 Percent Reserve	$99.7	$229.1	$373.5

[a] The forecasts are EDD's November 1979 projections of recent trends in the fund and assume that these trends will continue.
[b] This law is estimated to result in a maximum cost of $528.5 million. However, EDD estimates that actual claims will total $443.5 million.

COMPREHENSIVE EMPLOYMENT AND TRAINING PROGRAM

Under the Comprehensive Employment and Training Act (CETA) of 1973, the federal government provides assistance for locally administered employment and training programs. Under the act, block grants are made to 36 local government prime sponsors in California and to the state government in its capacity as prime sponsor for the 28 "balance-of-state" counties which are too small to qualify as prime sponsors. Prime sponsors are units of general local government with populations of 100,000 or more.

They may also be combinations of local units which join together as a consortium.

Prime sponsors contract with community based organizations and state and local entities to provide services to program participants. Many of the local EDD offices have entered into contracts to provide work experience, on-the-job training, vocational education and related services.

CETA funds may be used to finance the development and creation of job opportunities, and to fund training, education and other related services designed to enable individuals to secure and retain employment commensurate with their maximum potential. Specific CETA programs include: on-the-job training by private employers; work experience and classroom training programs for in-school youth, and adults; public service employment; summer employment for economically disadvantaged youth; and a variety of other more narrowly focused efforts. Table 5 details the funding of all state-administered CETA funded employment projects. These projects are estimated to receive $129,251,407 in fiscal 1979–80 and $131,885,615 in 1980–81. This is an increase of $2,634,208, or 2 percent over the current year allocation. The net increase is due to incremental increases in all state-administered CETA programs except the CETA state agency public service employment program (PSE), which is estimated to decline by $4.2 million. This decline in PSE is primarily due to a decline in the availability of funds under the Public Works Employment Act. The declining funding source has resulted in public service agencies changing their emphasis in service delivery such that they are not demanding as much technical assistance from EDD in the budget year.

Table 5
State Administered CETA Funded Programs
1979–80 and 1980–81

	Estimated 1979–80	*Proposed 1980–81*
Governor's Special Grant—Youth	$4,598,041	$4,969,008
Young Adult Conservation Corps	4,843,041	6,457,388
Job Corps	1,647,392	1,679,321
Governor's Special CETA Grant	35,351,896	37,094,464
Balance of State Prime Sponsor	48,258,463	51,496,634
CETA State Agency PSE	13,857,480	9,700,236
Contracted Prime Sponsor	20,695,094	20,488,564
Totals	$129,251,407	$131,885,615

California Employment and Training Advisory Council and Office

The California Employment and Training Advisory Council and Office (Cal-ETA) are primarily responsible for providing advice to the Director of EDD regarding employment and training and coordinating the public service employment programs of various state agencies which are funded through CETA prime sponsors. The primary source of funding for Cal-ETA is CETA, through the Governor's special CETA grants program. The Cal-ETA office administers the Youth Employment and Demonstration Project Act of 1977, the state Manpower Services Grant and the Governor's grant for vocational education services. In addition, the Cal-ETA office serves as staff to the council.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Legal Services Overbudgeted

We recommend a General Fund reduction in Item 304 of $60,288 to correct overbudgeting in operating expenses and equipment.

The budget includes $533,637 for payment to the Department of Justice for legal services provided to EDD and the UI Appeals Board. This amount is based on an estimate of 10,887 service hours, billable at a rate of $43.65 per hour, adjusted for a 3 percent miscellaneous increase and a 7 percent inflationary increase. However, the Attorney General estimates only 10,082 hours will be needed to provide services for EDD in the budget year.

The Department of Finance advised state departments in Budget Letter Number 5 dated August 7, 1979, that the allowable rate for legal services in the budget year is $46.95 per hour. The Department of Justice's estimate of 10,082 hours at a cost of $46.95 per hour results in a funding requirement for legal services of $473,349 in the budget year. The difference between this amount and the amount budgeted by EDD is $60,288.

EDD pays for operating expenses and equipment with a combination of federal and General Fund support. The funds used to pay the Department of Justice for legal services are federal. Our analysis indicates that federal funds overbudgeted for legal services could be used appropriately to reduce the General Fund's contribution to departmental support. Therefore, we recommend a deletion of $60,288 from the General Fund (Item 304).

Delayed Implementation of Census Outreach

We recommend that EDD report to the Legislature, prior to budget hearings, clarifying (1) the discrepancies between the census outreach proposal reviewed by the Joint Legislative Budget Committee and the project currently being administered by SOEO and (2) SOEO's failure to report on its site selection for field representatives and the manner in which it is minimizing duplication of state and federal outreach efforts.

Item 277.1 of the 1979 Budget Act appropriated $650,000 from the General Fund for a one-time census outreach project, and provided that authorization of the expenditures was effective no sooner than 30 days after the Joint Legislative Budget Committee was notified of the approved expenditure plan.

In a letter dated September 21, 1979, the Director of Finance requested a waiver of the 30-day waiting period established in Item 277.1 to allow EDD's State Office of Economic Opportunity (SOEO) to begin implementing the census project. SOEO proposed to hire four state administrative staff for a ten-month period and thirty-three field representatives to work with local community action agencies for a six-month period.

In a letter dated October 11, 1979, the Chairman of the Joint Legislative Budget Committee approved the Director's request for a waiver of the 30-day waiting period, and made two recommendations. The first recommendation was that $67,449 of the proposed budget be available only upon the written approval of the Department of Finance. This amount represented the difference between a proposed 10-month budget (August 1979 through May 1980) and the funding needed for the 8 months (October 1979 through May 1980) during which the project would be conducted. The second recommendation was that SOEO provide a preliminary report to the Joint Legislative Budget Committee as soon as sites were selected for the 33 field representatives detailing the proposed relationship between the state project and federal outreach activities conducted by the United States Census Bureau. The State Office of Economic Opportunity has not submitted the report requested by the Joint Legislative Budget Committee.

Two components of the project have been delayed. First, although the Legislature was advised that full staffing was anticipated by November 15, 1979, hiring of field representatives was not completed until mid-January 1980. Second, although the Legislature was advised that outreach activity would begin in early December 1979, this activity did not commence until the latter part of January 1980.

We recommend that EDD report to the Legislature, prior to budget hearings, clarifying (1) the discrepancies between the outreach proposal reviewed by the Joint Legislative Budget Committee and the project currently being administered by SOEO and (2) SOEO's failure to report its site selection for field representatives and the manner in which it is minimizing duplication of state and federal outreach efforts.

Contractors Law Enforcement

We recommend deletion of 16 positions and $343,868 from the General Fund to discontinue funding for the Contractors Law Enforcement program (Item 304(f)).

The Contractors Law Enforcement program is designed to enforce laws pertaining to construction contractors including licensing requirements, employment taxes and safety standards. It was initiated as a one-year (May 1978 to April 1979) pilot project involving EDD, the Department of Industrial Relations, and the Department of Consumer Affairs, and was funded from federal Title II funds.

In our *Analysis of the 1979 Budget Bill,* we recommended that this project not be approved as a General Fund program because the department could not demonstrate that promised tax savings had resulted from the project's activities. The Legislature appropriated $308,074 from the General Fund for the current year to support the program but added control language to Item 277(g) providing that "any further General Fund appropriation shall be based on the results of a program report submitted by January 1, 1980, to the Joint Legislative Budget Committee."

As of February 1, 1980, EDD had not submitted the required report. Thus, we have no basis on which to recommend continuation of this program.

In the absence of information demonstrating significant program accomplishments, we recommend deletion of 13 auditors and three clerical positions staffing the Contractors Law Enforcement program, for a General Fund savings of $343,868.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

California Worksite Education and Training Act

We recommend a reduction of $1,016,497 from Item 304 (reimbursements) proposed to expand the California Worksite Education and Training Act Demonstration program.

Background. Chapter 1181, Statutes of 1979 (SB 132), the California Worksite Education and Training Act (CWETA), declares that it is the policy of the state to provide job training programs which integrate classroom instruction with entry level and career worksite training for youth and the economically disadvantaged. The act appropriated $25 million from the General Fund, without regard to fiscal years, to the Employment Development Department to carry out its provisions. This chapter remains in effect until September 1982.

Budget Proposal. EDD advises that it proposes to expend CWETA's $25 million appropriation in the following manner: $10 million in the 1979–80 current year, $8 million in the 1980–81 budget year and $7 million in 1981–82. In addition to the $8 million, the budget proposes to expend $1,016,497 for apprenticeship training for employees of the Department of Developmental Services (DDS). These expenditures will be reimbursed by DDS (Item 297). Thus, total expenditures for CWETA programs are proposed at $9,016,497 in 1980–81.

Our analysis indicates that the proposed transfer of apprenticeship funds should not be approved for the following reasons:

1. *New apprenticeship programs should not be established until the existing programs have been evaluated.* As we discus in our analysis of Item 297, the Governor's Budget for 1979–80 stated that the Department of Developmental Services would evaluate the apprenticeship programs as part of the 1980–81 budget process. This was not done. In fact, an adequate evaluation of the project will not be possible until the students graduate, take licensure examinations and select employment locations. Because most of the students participating in the project will not graduate until June 1980, sufficient information to evaluate the program will not be available until the fall of 1980 at the earliest.

2. *EDD is unable to explain how the funds transferred from DDS will be used.* The CWETA program establishes a number of requirements for programs operated under its authority. It is unclear how DDS and EDD would restructure the apprenticeship program to satisfy these requirements. Further, the budget states that program sites will be expanded to include community settings. This would be a substantive program change from the current hospital-based apprenticeship programs, for which no justification has been provided.

3. *Funds have already been appropriated for CWETA programs.* Chapter 1181 appropriated $25 million to implement CWETA during the current year. If the departments plan to restructure the apprenticeship program to qualify it as a CWETA project, funding should be derived from moneys already available for CWETA projects.

Health and Welfare Agency

DEPARTMENT OF REHABILITATION

Item 308 from the General Fund — Budget p. HW 135

Requested 1980–81	$17,324,623
Estimated 1979–80	16,445,300
Actual 1978–79	12,897,633
Requested increase (excluding amount for salary increases) $879,323 (+5.3 percent)	
Total recommended reduction	$1,850,740

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. *Work Activity Program. Reduce by $1,850,740.* Recommend reduction in reimbursements to correct for overbudgeting.	830
2. Independent Living Centers. Withhold recommendation pending review of the independent evaluation of the centers currently receiving state support.	831

GENERAL PROGRAM STATEMENT

The Department of Rehabilitation is responsible for assisting physically or mentally handicapped individuals to achieve social and economic independence by providing rehabilitation services which enable placement in suitable employment. The department operates primarily under the authority of the Federal Rehabilitation Act of 1973, as amended in 1974 and 1978, and Division 10 of the Welfare and Institutions Code. Its functions are carried out through the following five programs:

1. *Rehabilitation of the Disabled.* The vocational rehabilitation program is the major function of the department. The primary tasks of this program are performed by rehabilitation counselors who (a) evaluate applicants for rehabilitation services, (b) work with disabled persons in developing an individualized written rehabilitation plan (IWRP), (c) coordinate services delivered to clients, (d) assist clients to find suitable work, and (e) maintain follow-up contact to assure continued employment.

2. *Small Business and Job Development.* This program assists the blind to become self-supporting by providing training in food service and vending facilities management, and employment in existing or new vending businesses in public or private buildings. In addition, the program provides small business opportunities for the disabled in both the public and private sectors.

3. *Development of Community Rehabilitation Resources.* This program works with government and private nonprofit organizations to improve community rehabilitation services. Such services are provided by rehabilitation workshops and centers, independent living programs, special facilities for the blind and deaf, halfway houses, and alcoholic recovery homes.

DEPARTMENT OF REHABILITATION—Continued

4. *Habilitation Services.* This program addresses the prevocational needs of severely handicapped adults who are unable to benefit from mainstream vocational rehabilitation programs. It provides developmental programs targeted at increased independence, improved social functioning and, to the extent feasible, development of the individual's potential for mainstream vocational rehabilitation programs.

5. *Administration.* Administration provides executive direction, planning, fiscal and support services to the department.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $17,324,623 from the General Fund for support of the Department of Rehabilitation in 1980–81, which is an increase of $879,323, or 5.3 percent, over estimated current year expenditures. This increase consists of: (1) $312,028 to restore funds eliminated on a one-time basis during the current year pursuant to control Section 27.2, 1979 Budget Act, (2) $48,891 for merit salary adjustments and social security increases, and (3) $518,404 for a 7 percent price increase in operating expenses and equipment. Table 1 details the proposed General Fund changes.

The budget proposes total expenditures of $147,035,461, all funds, which includes $17,324,623 from the General Fund, $97,854,365 from federal funds, and $31,856,473 from reimbursements. This is an increase of $28,065,217, or 23.6 percent, above estimated current year expenditures. Table 2 details the department's total current and budget year expenditures. The most significant reason for the increase in program expenditures is the transfer of $27,605,200 from the Department of Developmental

Table 1
Proposed General Fund Adjustments for the Department of Rehabilitation Support Budget
1980–81

	Adjustment	*Total*
1979–80 Current Year Expenditures		$16,445,300
1. Baseline adjustments for existing programs		
A. Increase in Existing Personnel Costs		
1. Merit salary adjustments	$33,701	
2. OASDI	15,190	
3. Salary Savings (restoration of FY 79–80 Section 27.2 reduction)	312,028	
Subtotal		$360,919
B. Operating expenses and equipment		
1. Support related	$101,911	
2. Client related	416,493	
Subtotal		$518,404
Total Baseline Adjustment		$879,323
2. Program change proposals for 1980–81	—	
Total budget change proposals		—
3. Total, budget change proposed		$879,323
4. Total General Fund 1980–81 Expenditures		$17,324,623

Services (Item 297) to the Department of Rehabilitation for habilitation services for the developmentally disabled, pursuant to the provisions of Chapter 1132, Statutes of 1979 (AB 1164). The transfer is discussed in a later section of this analysis.

Other changes have resulted from (1) an increase in the number of projected clients needing basic rehabilitation services, and (2) a decrease in costs associated with grant administration and technical consultation to rehabilitation facilities.

Table 2
Department of Rehabilitation
Budget Summary

	Estimated 1979–80	*Proposed 1980–81*	*Change From Current Year* Amount	*Change From Current Year* Percent
Funding				
General Fund	$16,445,300	$17,324,623	$879,323	5.3%
Federal funds	96,154,501	95,661,316	−493,185	−0.5
Special Deposit Fund—Vending Stand Account	885,425	885,425	—	—
Federal—Special Deposit Fund:				
Vending Stands Account	1,307,624	1,307,624	—	—
Reimbursements	4,177,394	31,856,473	27,679,079	662.6
Totals	$118,970,244	$147,035,461	$28,065,217	23.6%
Program Expenditures				
Rehabilitation of the disabled	$104,543,455	$105,634,054	$1,090,599	1.0%
Personnel-years	2,101.4	2,134.9	33.5	1.6
Small business and job development	4,145,796	4,164,885	19,089	0.5
Personnel-years	58.8	58.8	—	—
Development of community rehabilitation services	3,596,454	2,881,317	−715,137	−19.9
Personnel-years	31.0	29.5	−1.5	−4.8
Habilitation services	6,684,539	34,355,205	27,670,666	414.0
Personnel-years	100.8	128.3	27.5	27.3
Administration	(12,048,385)	(12,328,305)	(279,920)	2.3
Personnel-years	(328.0)	(335.0)	(7.0)	2.1
Totals	$118,970,244	$147,035,461	$28,065,217	23.6%
Personnel-years [a]	2,292.0	2,351.5	59.5	2.6

[a] Personnel years are net totals after salary savings.

New Positions

The budget proposes to continue 43.2 positions administratively established in the current year and add 26 new positions for a total of 69.2 positions. This would bring the number of authorized positions, less salary savings, to a total of 2,351.5.

Table 3 identifies how the 69.2 positions will be distributed within the department. Of the 69.2 positions, 31.5 will be full-time permanent and 37.7 will be temporary help. Table 3 also details the funding sources for the new positions. Most of the new positions will be funded from reimbursements and existing resources.

As Table 3 indicates, 23.5 positions will be allocated to the Program Support Division. Of this number, 20.5 are proposed to administer the sheltered work and activity centers in the habilitation program, and three

DEPARTMENT OF REHABILITATION—Continued

positions are proposed for the independent living centers. The Administration Services Division will be allocated eight positions. Of these, seven will be for the sheltered work and activity centers, and one position is proposed to meet increased workload resulting from the establishment of a retirement program for business enterprise cafeteria operators and from new federal accounting requirements.

The remaining 37.7 positions are temporary positions which were administratively established in the current year to provide reader and interpreter services for the disabled. The department has redirected existing funds from operating expenses and equipment to personal services to support these positions.

We have reviewed the projected workload and the proposal to redirect funds, and recommend approval of all of the proposed positions except three which we discuss later in the analysis.

Table 3
Department of Rehabilitation
Proposed New Postions by Funding Source

	Proposed New Positions	*Funding Sources*			
		General Fund	*Federal Funds*	*Reimburse-ments*	*Total*
Program Support Division	23.5	$47,400	—	$332,832	$380,232
Administrative Services Division	8.0	2,012	$12,848	89,708	104,568
Temporary Help	37.7	374,513 [a]	—	—	374,513 [a]
Totals	69.2	$423,925	$12,848	$422,540	$859,313

[a] Funding for these positions was transferred from operating expenses and equipment.

Transfer of Habilitation Services

We recommend a reduction of $1,850,740 in reimbursements to correct for overbudgeting in the Work Activity Program.

Effect of New Legislation. The Department of Developmental Services contracts with 21 regional centers to identify, provide and evaluate services to persons with developmental disabilities. The regional centers prepare individual program plans (IPPs) to meet the needs of their clients. One of the services included in the IPP is habilitation services provided through community-based work activity programs.

Chapter 1132, Statutes of 1979 (AB 1164), which became effective January 1, 1980, transfers responsibility for the administration of work activity services from the Department of Developmental Services to the Department of Rehabilitation beginning July 1, 1980. It also authorizes the transfer of funds between the two departments in continued support of these services. This transfer is to be accomplished by means of an interagency agreement which defines the roles and responsibilities of each department relative to the development of a client's IPP and the purchase of services from community work activity programs.

Under the new system, the Department of Rehabilitation will assist the Department of Developmental Services in preparing the habilitation component of an individual's IPP and conducting periodic reassessments to measure client progress. The reassessments will be used in planning future services. Habilitation services clients may either transition to employment or remain in the program indefinitely.

Budget Proposal. Item 297 (i), Department of Developmental Services support, proposes to transfer $25,754,460 to the Department of Rehabilitation for work activity programs. However, the Department of Rehabilitation's budget item includes $27,605,200 in reimbursements for work activity programs, a difference of $1,850,740

According to the Department of Developmental Services, the reason for the difference in the amount budgeted and the amount reflected as reimbursements is that DDS relied on more recent caseload projections that were lower than those used by the Department of Rehabilitation. Because Item 297 proposes to appropriate $25,754,460 for work activity programs, we recommend that reimbusements included in Item 308 be reduced by $1,850,740 to reflect actual funds available.

Independent Living Centers

We withhold recommendation on continued state support of independent living centers pending review of the independent evaluation of the current year program.

Federal Funds. Until 1978, only clients who were eligible for *vocational* rehabilitation were eligible for rehabilitation services. Federal rehabilitation funds could not be used for habilitation or prevocational services. However, in 1978 the federal Rehabilitation Act of 1973 was amended to include a new section to fund habilitation services. Currently, Title VII, Comprehensive Services for Independent Living, authorizes federal support for rehabilitation services, including independent living centers. National funding for habilitation services has risen from $2 million in the 1979 federal fiscal year, to $15 million in 1980, and an estimated $18 million in 1981.

New Legislation. Chapter 191, Statutes of 1979 (AB 204), appropriated $2 million from the General Fund to the Department of Rehabilitation to support independent living centers in 1979–80. The centers provide services to disabled individuals that assist them in achieving social and economic independence. In addition, Chapter 191 allocated $200,000 of the appropriation for an independent evaluation of the funded centers to be completed by March 1, 1980, and submitted to the Legislature by March 30, 1980.

Current Year Activities. During the current year, the department has allocated the $2 million in the following manner: (a) $1,848,265 for 20 grants, (b) $70,647 to support three positions to administer the program, and (c) $81,088 for independent evaluations of the centers receiving state support. Available data indicate that the average current year grant amount is $92,413. However, grant amounts vary from a low of $13,701 for the Community Service Center for the Disabled in San Diego to a high of $176,897 for the Center for Independent Living in Berkeley.

Budget Proposal. The appropriation in Chapter 191 was for one year only and provided no specific authorization for continued funding of these centers. The budget proposes $2 million ($1,925,000 for grants and $75,000 for three administrative staff) to continue funding independent living

DEPARTMENT OF REHABILITATION—Continued

centers in the budget year. The administration advises that it plans to support legislation to establish an ongoing program of support for core independent living services on a 50 percent state/50 percent local matching ratio. Moreover, in this legislation, the administration proposes to increase funding for the centers by an additional $1 million, for total state support of $3 million in the budget year.

The independent evaluation required by the provisions of Chapter 191 will not be available for review until March 30, 1980. This report will contain data evaluating the impact of state support for these centers in the current year, and thus will assist the Legislature in determining the amount of additional funding warranted for these centers. We withhold recommendation on the proposed continuation of state support, pending review of the evaluation.

DEPARTMENT OF SOCIAL SERVICES

SUMMARY

The Department of Social Services is the single state agency responsible for supervising the delivery of cash grants and social services to needy persons in California. Monthly grant payments are made to eligible recipients through two programs—Aid to Families with Dependent Children (AFDC) and the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program. In addition, welfare recipients, low-income individuals, and persons in need of protection may receive a number of social services such as information and referral, domestic and personal care assistance, and child and adult protective services.

Table 1 identifies *total* expenditures from all funds for programs administered by the Department of Social Services for fiscal years 1979–80 and 1980–81. Total expenditures for 1980–81 are proposed at $5,970,576,604, which is an increase of $970,317,486, or 19.4 percent, over estimated current year expenditures.

Table 1
Department of Social Services Expenditures and Revenues by Program
All Funds
1979–80 and 1980–81

Budget Item	*Program*	*Estimated 1979–80*	*Proposed 1980–81*	*Change Amount*	*Change Percent*
309	Department support	$106,331,313	$114,252,730	$7,921,417	7.4%
Control Section					
32.5	AFDC cash grants	2,106,081,700	2,585,469,700	479,388,000	22.8
310	SSI/SSP cash grants	1,789,952,500	2,103,276,700	313,324,200	17.5
311	Special adult programs	39,535,300	73,771,000	34,235,700	86.6
312	Special social services programs	551,103,962	658,490,874	107,386,912	19.5
	In-home supportive services	(212,944,100)	(249,475,500)	(36,531,400)	(17.2)
313	County welfare department administration	407,254,343	435,315,600	28,061,257	6.9
314	Local mandates	(7,261,900)	(7,930,200)	(668,300)	(9.2)
	Totals	$5,000,259,118	$5,970,576,604	$970,317,486	19.4%
	General Fund	*2,378,668,388*	*2,858,299,789*	*479,631,401*	*20.2*
	Federal funds	*2,377,233,561*	*2,838,235,305*	*461,001,744*	*19.4*
	County funds [a]	*230,018,862*	*255,032,436*	*25,013,574*	*10.9*
	Reimbursements	*14,338,307*	*19,009,074*	*4,670,767*	*32.6*

[a] Net county expenditures after adjusting for local fiscal relief provided by Chapter 282, Statutes of 1979 (AB 8).

Table 2 shows the *General Fund* expenditures for cash grant and social services programs administered by the Department of Social Services. The department requests a total of $2,858,299,789 from the General Fund for 1980–81. This is an increase of $479,631,401 or 20.2 percent, over estimated current year expenditures.

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 2
Department of Social Services
General Fund Expenditure
1979–80 and 1980–81

Budget Item	*Program*	*Estimated 1979–80*	*Proposed 1980–81*	*Change Amount*	*Change Percent*
309	Department support	$40,545,191	$43,938,948	$3,393,757	8.4%
Control Section					
32.5	AFDC cash grants	986,941,900	1,195,372,200	208,430,300	21.1
310	SSI/SSP cash grants	1,087,876,000	1,310,291,600	222,415,600	20.4
311	Special adult programs	3,708,700	4,196,000	487,300	13.1
312	Special social service programs	156,936,886	195,424,741	38,487,855	24.5
	In-home supportive services	(117,077,943)	(149,424,493)	(32,346,550)	(27.6)
313	County welfare department administration	95,397,811	101,146,100	5,748,289	6.0
314	Local mandates	7,261,900	7,930,200	668,300	9.2
	Totals	$2,378,668,388	$2,858,299,789	$479,631,401	20.2%

Health and Welfare Agency
DEPARTMENT OF SOCIAL SERVICES

Item 309 from the General Fund — Budget p. HW 145

Requested 1980–81	$43,938,948
Estimated 1979–80	40,545,191
Actual 1978–79	25,658,951
Requested increase (excluding amount for salary increases) $3,393,757 (+8.4 percent)	
Total recommended reduction	$924,809

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. *County Training Funds. Reduce by $18,018.* Recommend reduction of $18,018 from the General Fund and $54,054 from federal funds to reflect actual expenditure pattern for county training. 853
2. *Facilities Operations. Reduce by $27,250.* Recommend reduction ($24,978 General Fund, $31,314 federal funds and $2,272 reimbursements) to eliminate overbudgeting for price increases for facilities operations. 854
3. *Data Processing Services. Reduce by $38,109.* Recommend deletion of funds ($37,206 General Fund, $26,891 federal funds and $903 reimbursements) budgeted for rate increases of Health and Welfare Agency Consolidated Data Center. 854
4. *Fair Hearing Officers. Reduce by $139,175.* Recommend 855

reduction of $139,175 from the General Fund and $97,518 from federal funds by deleting six fair hearing officer positions. Further recommend workload standard evaluation by the Department of Finance.

5. *Affirmative Action—Temporary Help Positions. Reduce by $135,529.* Recommend reduction of $135,529 from the General Fund and $135,528 from federal funds by eliminating temporary help funding for affirmative action recruiting. 857
6. *Special Consultants. Reduce by $51,036.* Recommend reduction of $50,869 General Fund, $25,322 federal funds and $167 reimbursements by eliminating temporary help funding for special consultants. Further recommend control language requiring Department of Finance approval of special consultants. 861
7. *Centralized Delivery System. Reduce by $398,207.* 863
   Recommend:
   a. Control language requiring that department's feasibility study identify the total state and local resources required and schedule of events necessary to complete the system. 866
   b. Control language requiring funds for undefined positions not be expended until specified approvals have been obtained and that any funds not expended for approved budgeted positions revert. 866
   c. Reduction of $398,207 from the General Fund and $398,206 from federal funds by eliminating funds for data processing. 867
   d. Funds budgeted for the system be scheduled in a separate item. 867
8. *Child Support Enforcement Program. Augment by $13,008.* Recommend augmentation of $13,008 from the General Fund and $19,513 from federal funds by adding 1.5 positions to the 4.5 positions requested for county child support collection activities. Further recommend these six positions be limited to June 30, 1982. 868
9. *Public Inquiry and Response Positions. Reduce by $38,402.* Recommend deletion of two proposed positions, for a General Fund savings of $30,247 and a reduction of $9,600 in federal funds and $8,155 in reimbursements. 869
10. Title XX Training Positions. Recommend two management positions requested for Title XX training be limited to June 30, 1982. Further recommend report on progress toward achievement of management goals by December 15, 1981. 870
11. *Family and Children's Services Positions. Reduce by $92,091.* Recommend reduction of $92,091 from the General Fund by deleting three positions proposed to develop regulations for family and children's services programs. 871

DEPARTMENT OF SOCIAL SERVICES—Continued

12. Indochinese Refugee Assistance Program Positions. Recommend department submit plan for centralized program coordination prior to budget hearings. 873
13. Community Care Licensing Positions. Withhold recommendation on the establishment of 55 new positions pending receipt of department's workload standard methodology. 874
14. Control Section 32.5—AFDC Cost of Living. Recommend enactment of legislation providing cost-of-living adjustment to AFDC grants through the annual budget process rather than automatically through statute. 880

GENERAL PROGRAM STATEMENT

Chapter 1252, Statutes of 1977 (SB 363), created a new Department of Social Services, effective July 1, 1978. The new department retained the welfare operations function of the former Department of Benefit Payments, and assumed responsibility for the disability evaluation, community care licensing and social services functions of the former Department of Health. Departmental functions are carried out through eight divisions. Chart 1 shows the current organization of the department by division. Each division is divided into various branches and bureaus.

Legal Affairs Division

The Legal Affairs Division consists of the Office of the Chief Counsel and the Office of the Chief Referee. The Office of the Chief Counsel provides legal advice to departmental managers and support to the Attorney General in litigating cases affecting the department. The Office of Chief Referee is responsible for conducting administrative hearings to determine the fairness of decisions made by county welfare department personnel in handling welfare cases.

Administration Division

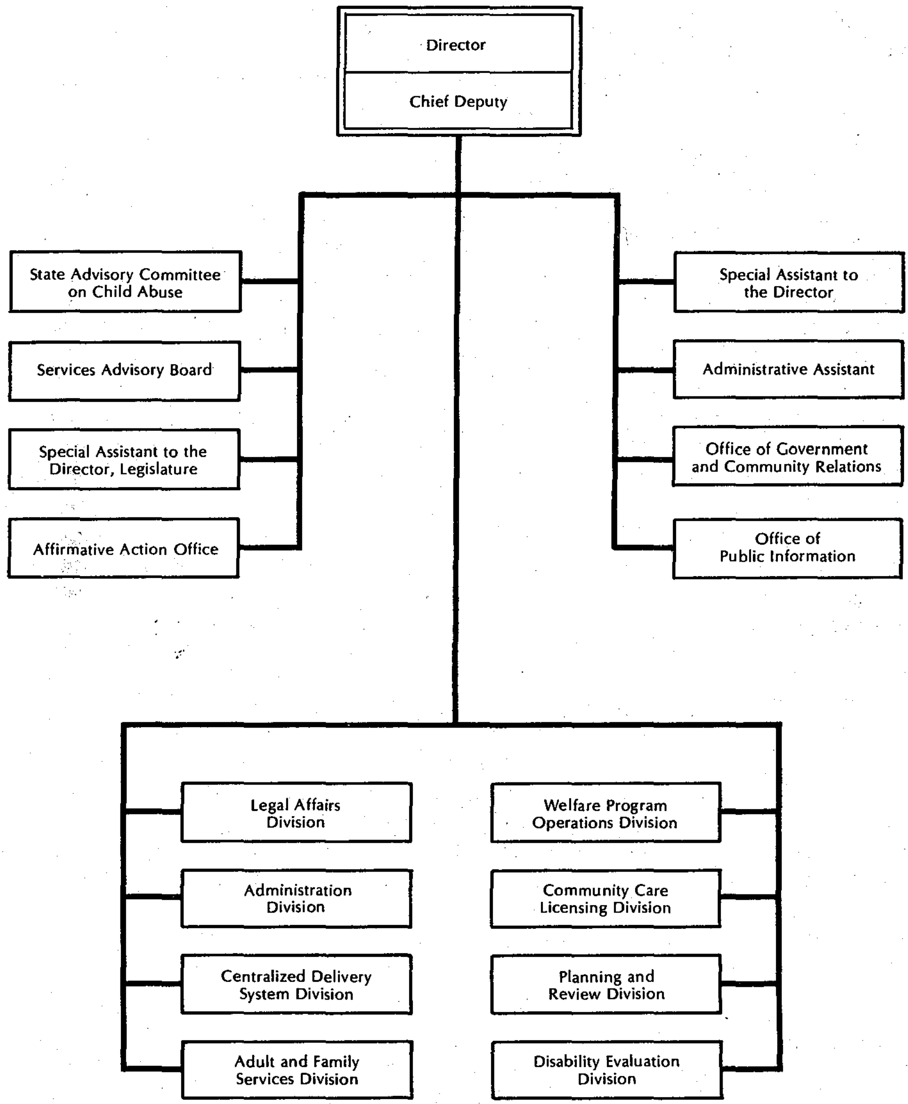
The Administration Division has responsibility for providing all support functions for the Department of Social Services. The functions include (1) processing personnel transactions, (2) providing space and centralized typing services, (3) managing the accounting and budgeting systems of the department, (4) collecting and analyzing data regarding the programs administered by the department, and (5) developing estimates of the projected costs and caseloads of the cash assistance and social services programs.

Centralized Delivery System

This division is responsible for definition, design, development and implementation of an automated system for delivering financial assistance and services to welfare recipients in California. The division was established in response to Chapter 282, Statutes of 1979 (AB 8), which requires the department to implement a centralized delivery system for welfare benefits in California by July 1, 1984.

Chart 1

Department of Social Services Organization Chart



DEPARTMENT OF SOCIAL SERVICES—Continued

Adult and Family Services Division

The Adult and Family Services Division is responsible for managing and administering social services programs including in-home supportive services, other county social services, child welfare services and the state adoptions program. The division consists of five branches: (1) Family and Children's Services, (2) Adult Services, (3) Adoptions, (4) Systems and Policy and (5) AB 1642 Implementation. It plans, organizes and directs the operation of statewide social services programs delivered through county welfare departments, private agencies under contract, and other state departments. In addition, the division performs direct adoptions casework through three district offices.

Welfare Program Operations

The Welfare Program Operations Division has overall responsibility for the management of payment programs which provide financial assistance to needy individuals. The division consists of four branches. The AFDC Program Management Branch provides policy direction and interpretation to county welfare departments in administering the payment of grants under the AFDC program. The Adult Program Management Branch provides liaison with the Social Security Administration which administers the State Supplementary Payment (SSP) program. This branch also provides policy direction to the counties in the administration of various special adult programs including Emergency Loan and Special Circumstances, Aid to the Potentially Self-Supporting Blind, and the Guide Dog Special Allowance. The Food Stamp Program Management Branch supervises the county administration of the federal Food Stamp program. The Child Support Program branch develops statewide policies and procedures for collecting child support from absent welfare and nonwelfare parents.

Community Care Licensing Division

The Community Care Licensing Division (1) supports the facilities evaluation activities of county licensing agencies through the development of regulations, the collection of statewide data and the investigation of complaints and (2) directly licenses community care facilities in counties where the county welfare department has chosen not to contract with the state for this purpose. The division is organized into three branches to carry out these responsibilities: (1) Field Operations, (2) Client Protection Services, and (3) Policy and Administrative Support. The Field Operations Branch and Client Protective Services Branch maintain district offices throughout the state.

Planning and Review Division

The Planning and Review Division (1) monitors the progress of demonstration projects under the authority of the Department of Social Services, (2) responds to public inquiries regarding cash assistance and social services programs, (3) conducts studies of the personnel and financial management practices of the department, (4) evaluates the efficiency, equity and effectiveness of programs carried out by the 58 county welfare departments, and (5) develops error rate estimates in the determination of eligibility and level of payment to clients of the cash assistance and In-Home Supportive Services programs.

Disability Evaluation Division

The Disability Evaluation Division is responsible for determining the medical eligibility of California residents for benefits under the disability insurance, supplemental security income, and medically needy programs of the Social Security Act. There are six regional offices throughout the state responsible for processing disability claims.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund appropriation of $43,938,948 for support of the Department of Social Services in 1980–81, which is an increase of $3,393,757, or 8.4 percent, over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budget for the department proposes total expenditures from all funds of $114,252,730, which is an increase of $7,921,417, or 7.5 percent, over the estimated 1979–80 expenditures. Table 1 shows total expenditures, by division.

Proposed General Fund Budget Changes

Table 2 details the changes in the department's proposed General Fund expenditures for 1980–81. This table shows that expenditures in the budget year will increase by $3,393,757 over the current year. Included in the increased costs for existing programs is $1,482,630 for additional employee benefits (exclusive of salary increases) and $555,306 for a 7 percent increase in operating expenses and equipment. These costs are partially offset by reductions totaling $4,800,943. These reductions reflect the fact that certain one-time expenditures in the current year will not occur in the budget year. Table 2 also shows that budget change proposals to expand existing programs or to add new programs in 1980–81 will increase departmental expenditures by $5,870,746.

Proposed New Positions

The department is proposing a total of 340.2 new positions for 1980–81, as shown in Table 3. Three budget requests account for almost two-thirds of the proposed new positions. The single largest request is for 132 positions for a centralized welfare delivery system required by Chapter 282, Statutes of 1979 (AB 8). The department also is requesting 64.1 positions for the disability evaluation division due to projected increases in workload. In addition, the department is proposing 48 new positions to inspect and license community care facilities. The remaining 96.1 positions requested by the department are proposed for functions in the divisions for administration, adult and family services, welfare program operations and planning and review.

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 1
Summary of the Department of Social Services Support Budget
1979–80 and 1980–81

Funding	*Estimated 1979–80*	*Proposed 1980–81*	*Change Amount*	*Change Percent*
General Fund	$40,545,191	$43,938,948	$3,393,757	8.4%
Federal funds	63,080,240	66,231,866	3,151,626	5.0
Reimbursements	2,705,882	4,081,916	1,376,034	50.9
Totals	106,331,313	114,252,730	7,921,417	7.5%
Division				
Administration	18,403,260	19,580,305	1,177,045	6.4%
Personnel-years [a]	506.1	521.2	15.1	3.0
Legal affairs	5,591,035	5,751,597	160,562	2.9
Personnel-years	142.1	145.3	3.2	2.3
Adult and family services	8,423,038	8,853,543	430,505	5.1
Personnel-years	236.1	254.0	17.9	7.6
Welfare program operations	7,182,466	8,448,055	1,265,589	17.6
Personnel-years	150.4	156.7	6.3	4.2
Community care licensing	7,229,806	8,580,166	1,350,360	18.7
Personnel-years	243.9	283.1	39.2	16.1
Planning and review	7,601,797	8,366,582	764,785	10.1
Personnel-years	235.1	253.6	18.5	7.9
Disability evaluation	43,421,422	44,995,787	1,574,365	3.6
Personnel-years	1,239.6	1,297.8	58.2	4.7
Data processing bureau	2,874,531	2,965,346	90,815	3.2
Personnel-years	64.5	66.2	1.7	2.6
Centralized delivery system [b]	1,469,356	4,546,638	3,077,282	209.4
Personnel-years	61.3	104.4	43.1	70.3
Executive	4,134,602	2,164,711	−1,969,891	−47.6
Personnel-years	67.4	62.3	−5.1	−7.6
Office of Government and Community Relations [c]	(2,599,844)	(712,190)	(−1,887,654)	−72.6
Personnel-years	(23.2)	(17.0)	(−6.2)	−26.7
Affirmative Action Office	(681,086)	(736,002)	(54,916)	8.1
Personnel-years	(28.0)	(28.6)	(0.6)	2.1
Office of Public Information	(105,216)	(97,412)	(−7,804)	−7.4
Personnel-years	(2.8)	(2.9)	(0.1)	3.6
Services Advisory Board	(76,323)	(86,588)	(10,265)	13.4
Personnel-years	(1.9)	(2.0)	(0.1)	5.3
Special assistant Legislature	(76,202)	(86,701)	(10,499)	13.8
Personnel years	(1.9)	(2.0)	(0.1)	5.3
Special assistant to the director, southern region	(67,994)	(75,765)	(7,771)	11.4
Personnel-years	(1.9)	(2.0)	(0.1)	5.3
Administrative assistant	(35,781)	(43,294)	(7,513)	21.0
Personnel-years	(0.9)	(1.0)	(0.1)	11.1
Director and chief deputy [d]	(492,156)	(362,759)	(−165,397)	−33.6
Personnel-years	(6.8)	(6.8)	(0)	0
Totals	$106,331,313	$114,252,730	$7,921,417	7.5%
Personnel-years	2,946.5	3,144.6	198.1	6.7%

[a] Personnel-years do not equate with authorized positions due to vacancies.
[b] The personnel-years shown here reflect only project staff for the Centralized Delivery System. Program staff for CDS are disbursed among the other divisions of the department.
[c] Expenditures for the Office of Government and Community Relations in 1979–80 include $1,926,000 for disaster relief pursuant to Chapter 848, statutes of 1979.
[d] 1979–80 expenditures for the directorate include $143,000 for direct contracts, including the Kepner-Tregoe training project.

Table 2
Proposed General Fund Adjustments for the Department of Social Services Support Budget

	Cost	Total
1. 1979–80 Current Year Revised Expenditures		$40,545,191
2. Baseline Adjustments for Existing Programs		
A. Increase in Existing Personnel Costs		
1. Merit salary adjustments	$463,844	
2. OASDI	146,549	
3. Retirement	89,574	
4. Workers' compensation	1,206	
5. Restore 27.2 reduction	781,457	
Total		$1,482,630
B. Onetime Expenditures		
1. 1978–79 disaster relief	$–1,926,000	
2. Disaster relief—ongoing	–703,050	
3. Reduction of operating expenses and equipment by amount transferred from IHSS provider benefits	–786,200	
4. Chapter 282, Statutes of 1979 (AB 8)	–1,356,221	
5. Limited term position related to *Youakim v. Miller*	–16,628	
6. Onetime salary bonus increase	–4,344	
7. Chapter 1069, Statutes of 1979 (AB 1368) transfer	–8,500	
Total		$–4,800,943
C. Program Funding Shifts		
1. Increased General Fund costs due to expiration of federal funds for child support administrative activities	$416,170	
2. Child support—transfer of Attorney General reimbursements	102,130	
3. Systems review funding transfer	–33,332	
4. Attorney's fees transfer from Item 283	1,050	
5. Rape victim counseling centers transfer to Item 312	–200,000	
Total		$286,018
D. Seven Percent Price Increase on Operating Expenses and Equipment		$555,306
Total, Baseline Adjustments		($–2,476,989)
3. Program Change Proposals for 1980–81		
A. Centralized delivery system	$2,576,028	
B. Simplified referral system	913,727	
C. Community care licensing—field operations	1,210,685	
D. Other	1,170,306	
Total Program Change Proposals		$5,870,746
4. Total General Fund change proposed for 1980–81		($3,393,757)
5. Total General Fund, Item 309		$43,938,948

Workload and Administrative Adjustments

The department has transferred the computer services branch consisting of 68.5 positions from the administrative division to the centralized delivery system project, as shown in Table 3. These positions will not work directly on the centralized delivery system project, but will perform the ongoing EDP functions of the department. In addition, the department proposes to eliminate two auditor positions in the Office of Life Care Contracts. These positions were supported by federal funds from Title II of the Public Works Employment Act, which will not be available after 1979–80.

Table 3
Department of Social Services
Proposed Position Changes for 1980–81

Division	*Existing Positions*	*Workload and Administrative Adjustments*	*Requested Positions*	*Total Positions*	*Fiscal Effect of Requested Positions*			
					General Fund	*Federal Funds*	*Reimbursements*	*Totals*
Director's office	23.0	—	—	23.0	—	—	—	—
Government and community relations	19.5	—	—	19.5	—	—	—	—
Welfare program operations	125.3	—	15.5	140.8	$136,693	$211,669	—	$348,362
Legal affairs	144.0	—	—	144.0	—	—	—	—
Adult and family services	249.0	—	17.0	266.0	340,724	138,886	—	479,610
Administration	585.0	−68.5	21.2	537.7	87,918	366,296	—	454,214
Community care licensing	242.6	—	55.0	297.6	1,399,108	—	—	1,399,108
Planning and review	230.0	−2	34.5	262.5	405,643	454,425	$13,125	873,197
Disability evaluation	1,276.0	—	64.1	1,340.1	913,727	−540,650	1,435,186	1,808,263
Centralized delivery system	—	+68.5	132.9	201.4	2,586,933	2,389,571	—	4,976,504
Project staff	—	—	(105.0)	(105.0)	(2,068,282)	(2,068,280)	—	(4,136,562)
Program staff	—	—	(27.0)	(27.0)	(507,746)	(310,386)	—	(818,132)
Data Processing	—	(+68.5)	(0.9)	(69.4)	(10,905)	(10,905)	—	(21,810)
Temporary Help	73.4	—	—	73.4	—	—	—	—
Totals	2,967.8	−2	340.2	3,306.0	$5,870,746	$3,020,201	$1,448,311	$10,339,258

Control Section 27.2, 1979 Budget Act Reductions

Control Section 27.2 of the 1979 Budget Act requires the Department of Finance to limit expenditures for personal services in order to achieve a specified funding reduction. Chapter 1035, Statutes of 1979 (SB 186), modified Control Section 27.2 by requiring that the reduction in costs for personal services be made on a one-time basis through increased salary savings. Pursuant to these provisions, the department's salary savings were increased by $781,457 from the General Fund in the 1979–80 budget. The department indicates that the increased salary savings will be achieved by delaying departmental hiring in unspecified areas. The budget includes funds to restore support for these positions in the budget year.

IMPACT OF RECENT LEGISLATION

Financing of Specified County Welfare Costs

Chapter 282, Statutes of 1979 (AB 8), provides for a long-term program of fiscal relief to local governments to mitigate the loss of property tax revenues resulting from the passage of Proposition 13. The act provides for annual state funding of county costs for specified welfare programs effective with the 1979–80 fiscal year.

Table 4 shows that the state costs of the welfare provisions of AB 8 are estimated at $517.3 million for 1979–80 and $606.7 million for 1980–81. The budget year amount is $89.4 million, or 17.3 percent, above the current year costs.

Table 4
State Costs for the Welfare Provisions of Chapter 282
Statutes of 1979 (AB 8)
(in millions)

Program	*Estimated 1979–80*	*Proposed 1980–81*
SSI/SSP grants	$206.9	$234.2
AFDC		
Family group and unemployed parent grants	209.7	254.4
Foster care grants	83.7	100.8
Aid to adoption of children	0.9	1.0
Special needs	0.5	0.5
Administration	N/A [a]	N/A [a]
Staff training	1.0	0.9
Food stamp administration	—	—
Child support enforcement program		
Administration	11.8	12.9
Incentive payments to counties	2.1	1.1
Work incentive program	0.1	0.2
Aid to the potentially self-supporting blind program—		
Administration	0.04	0.05
Family protection pilot projects	0.6	0.6
Totals	$517.34	$606.65

[a] Chapter 282 did not provide for state assumption of county costs for administering the AFDC Program.

DEPARTMENT OF SOCIAL SERVICES—Continued

The following discussion compares the provisions of AB 8 with Chapter 292, Statutes of 1978 (SB 154), which provided fiscal relief during 1978–79.

1. *Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program.* This program provides cash grants to eligible aged, blind and disabled individuals. Historically, the federal government has paid the cost of the SSI grant, and the state and counties have shared the cost of the SSP grant. The county share was set by statute at $118 million for fiscal year 1974–75, and was increased annually thereafter by the percentage increases in the assessed valuation of property.

Chart 2 shows the expenditure of funds by level of government for the SSI/SSP program from 1977–78 through 1980–81. In 1977–78, the federal government paid $587.1 million (39.9 percent), the state contributed $721.1 million (48.9 percent), and the counties contributed $165.4 million (11.2 percent). In response to the passage of Proposition 13, the state assumed the county share of costs—estimated at $181.8 million—for 1978–79 through enactment of SB 154, bringing the state share to 58.1 percent.

AB 8 requires the state to continue to finance the county share of costs for this program beyond 1978–79. This provision will increase state costs by $206.9 million in 1979–80 and $234.2 million in 1980–81 as shown in Chart 2.

2. *Aid to Families with Dependent Children program—Grants for Family Group and Unemployed (AFDC-FG and U).* The AFDC program provides cash grants to children and their parents or guardians whose income is insufficient to meet their basic needs. Prior to 1978–79, the federal government paid 50 percent of the grant costs, the state paid 33.75 percent and the counties paid 16.25 percent. In 1977–78, the federal government paid $853.7 million, the state paid $623.2 million, and the counties paid $226.3 million, as shown in Chart 3.

After passage of Proposition 13, the state assumed the entire county share of costs for this program for 1978–79, as a result of the enactment of SB 154. This change increased state costs by $260.4 million.

Beginning with the current year, the federal government will pay 50 percent of costs, the state will pay 44.6 percent and the counties will pay 5.4 percent, as a result of the enactment of AB 8. This act will result in additional state costs of $209.7 million in 1979–80, and $254.4 million in 1980–81, as shown in Chart 3.

3. *Aid to Families with Dependent Children—Grants for Foster Care.* The AFDC Foster Care program provides cash grants to eligible children residing in foster care homes and institutions. Prior to 1978–79, the counties paid the major share—approximately 77 percent—of the nonfederal costs for this program. During 1978–79, the state assumed 95 percent of the nonfederal costs due to the enactment of SB 154. As a result, state costs for this program increased by $78.6 million, as shown in Chart 4.

AB 8 requires the state to continue to pay 95 percent of the nonfederal share of program costs until January 1, 1984. Chart 4 shows that the additional state costs resulting from this provision are $83.7 million in 1979–80 and $100.8 million in 1980–81.

Chart 2
Expenditures for the SSI/SSP Program 1977–78 to 1980–81 (in millions)

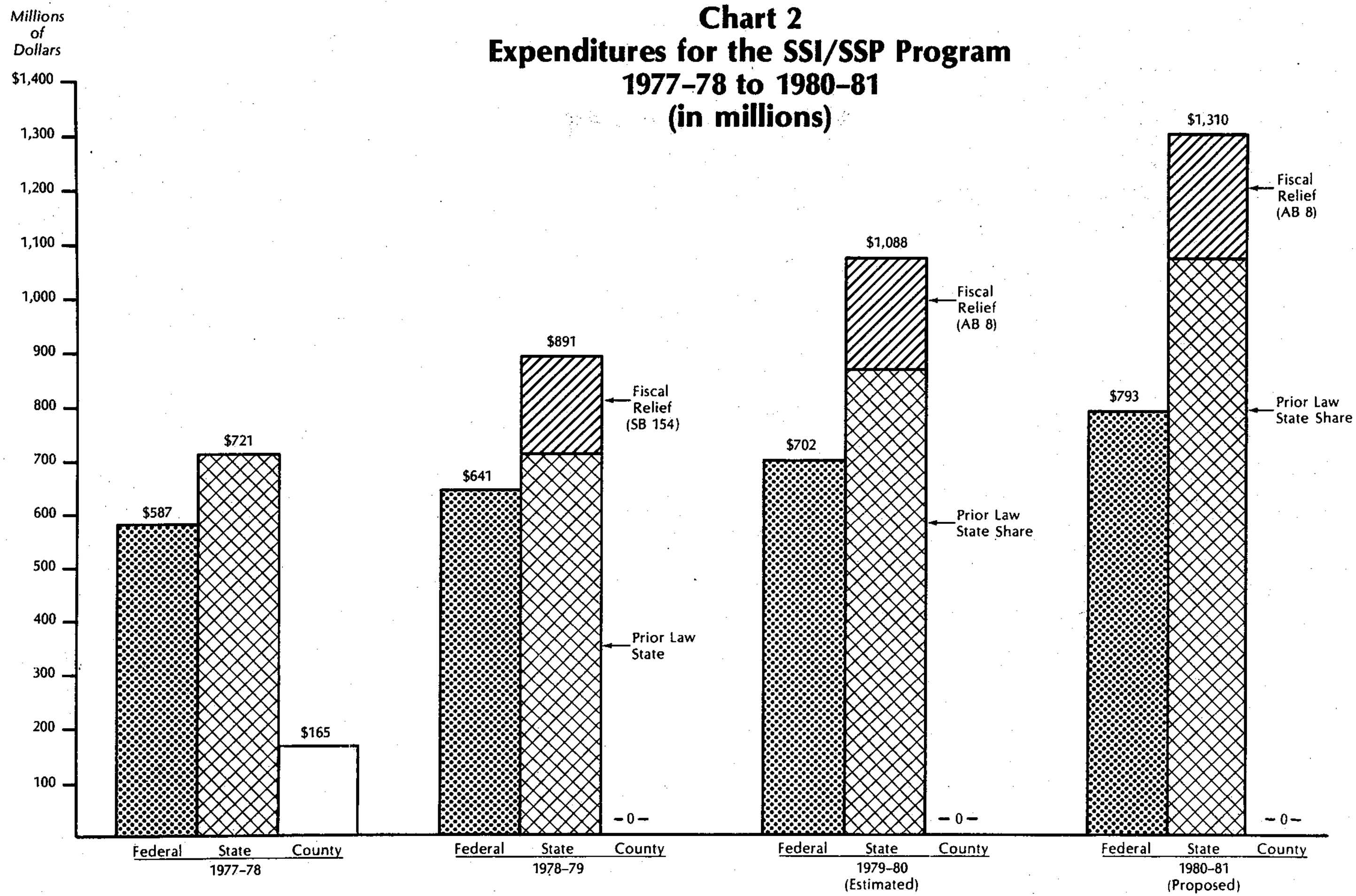
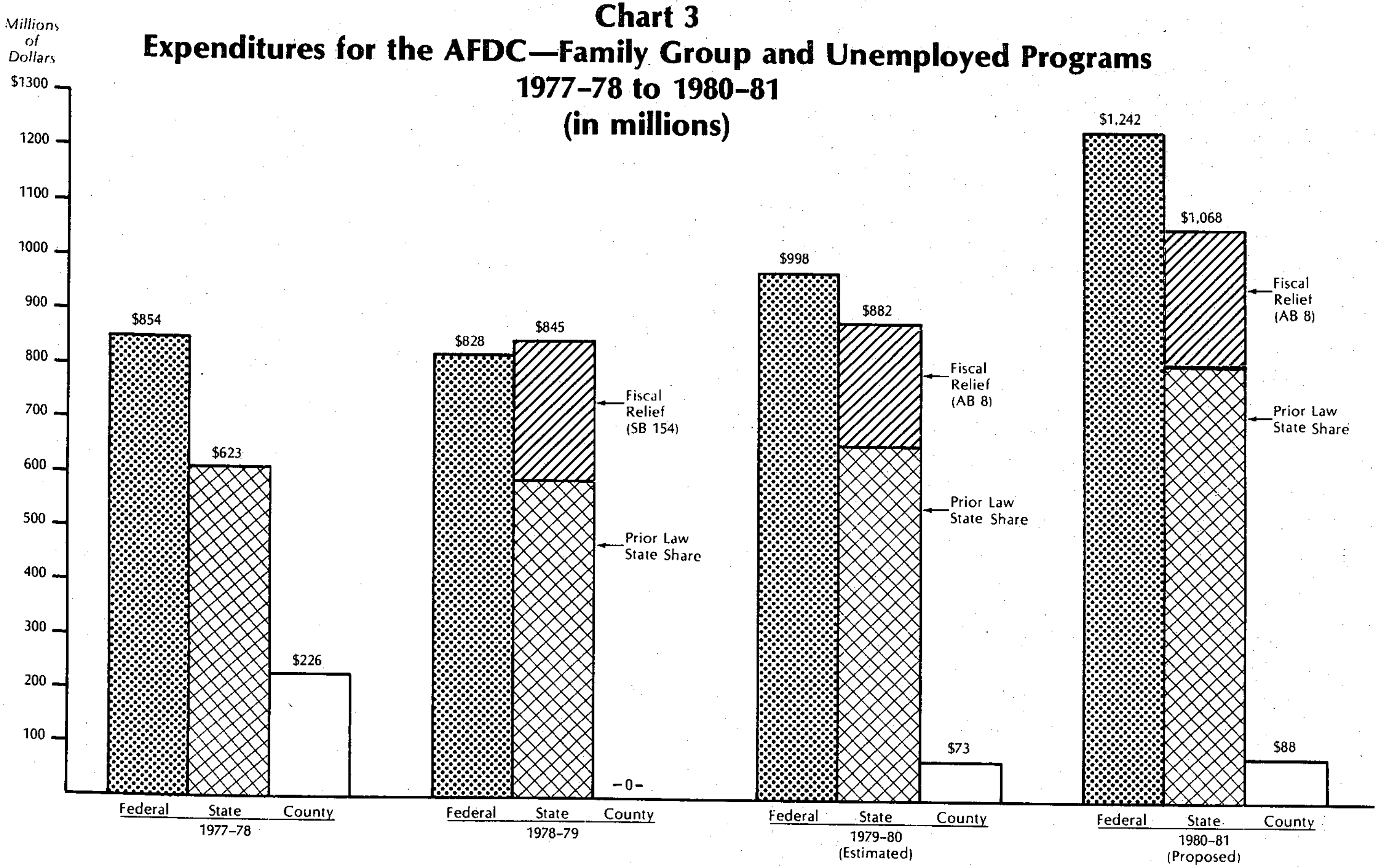


Chart 3
Expenditures for the AFDC—Family Group and Unemployed Programs
1977–78 to 1980–81
(in millions)



AB 8 contained several other provisions affecting the AFDC Foster Care program:

(a) Beginning July 1, 1979, no county shall be reimbursed for any rate increases granted boarding homes and institutions which exceed the percentage cost-of-living increase granted to AFDC-FG and U recipients. AFDC-FG and U recipients received a 15.16 percent cost-of-living increase in 1979–80. Existing law requires a 14.65 percent cost-of-living increase for 1980–81.

(b) The Department of Social Services is required to submit performance standards for the AFDC Foster Care program to the Joint Legislative Budget Committee by January 1, 1981 for review and comment. The department is required to adopt performance standards by regulation, by April 15, 1981, and to hold counties liable for not meeting such standards.

(c) In addition, the department is required to develop a management information and quality control system for the Foster Care program and make recommendations for establishing program payment levels.

4. *Aid to Adoption of Children (AAC) Program.* The AAC program waives the adoption fees for certain hard-to-place children and provides a monthly payment equal to the amount that would have been paid if the child had been placed in a foster home instead of being adopted. Prior to 1979–80, the state paid the first $81 of the monthly payment and the counties financed the remainder. As a result of AB 8, the state pays the county cost of this program. The additional cost of this provision to the state is $918,200 in 1979–80 and $1.0 million in 1980–81.

5. *AFDC—Special Needs.* Prior to 1979–80, the federal and county governments each paid 50 percent of the costs for special need payments to AFDC recipients. The payments cover the costs for such items as special diets, laundry, housekeeping services, telephone and utilities. As a result of AB 8, the state pays 44.6 percent of costs and the county pays 5.4 percent. State costs are estimated to increase by $478,900 in 1979–80 and $503,500 in 1980–81.

6. *AFDC—Administration.* Counties administer the AFDC program under the direction of the Department of Social Services. The costs of administering the program are shared by the three levels of government, with the federal government paying 50 percent, and the state and counties paying 25 percent each. Passage of SB 154 resulted in the state assuming the county share of costs—$53.4 million—for 1978–79.

AB 8 provides that the nonfederal cost sharing ratios will return to what they were prior to 1978–79. Total 1979–80 administrative costs are estimated at $251.4 million. Of this amount, the federal government will pay $126.0 million and the state and counties will each pay $62.7 million, as shown in Chart 5. Total 1980–81 administrative costs for the AFDC program are proposed at $277.8 million.

7. *AFDC Administration—Staff Development.* Historically, the federal and county governments have shared the costs of training eligibility workers. The federal government paid 75 percent of costs and the counties paid 25 percent. As a result of AB 8, the state assumed half the county costs for staff training. This will increase state costs by $964,811 in 1979–80 and $915,800 in 1980–81.

8. *Aid to the Potentially Self-Supporting Blind (APSB) Program—Administration.* Prior to 1979–80, the state and counties equally shared the

Chart 4
Expenditures for the AFDC—Foster Care Program
1977-78 to 1980-81
(in millions)

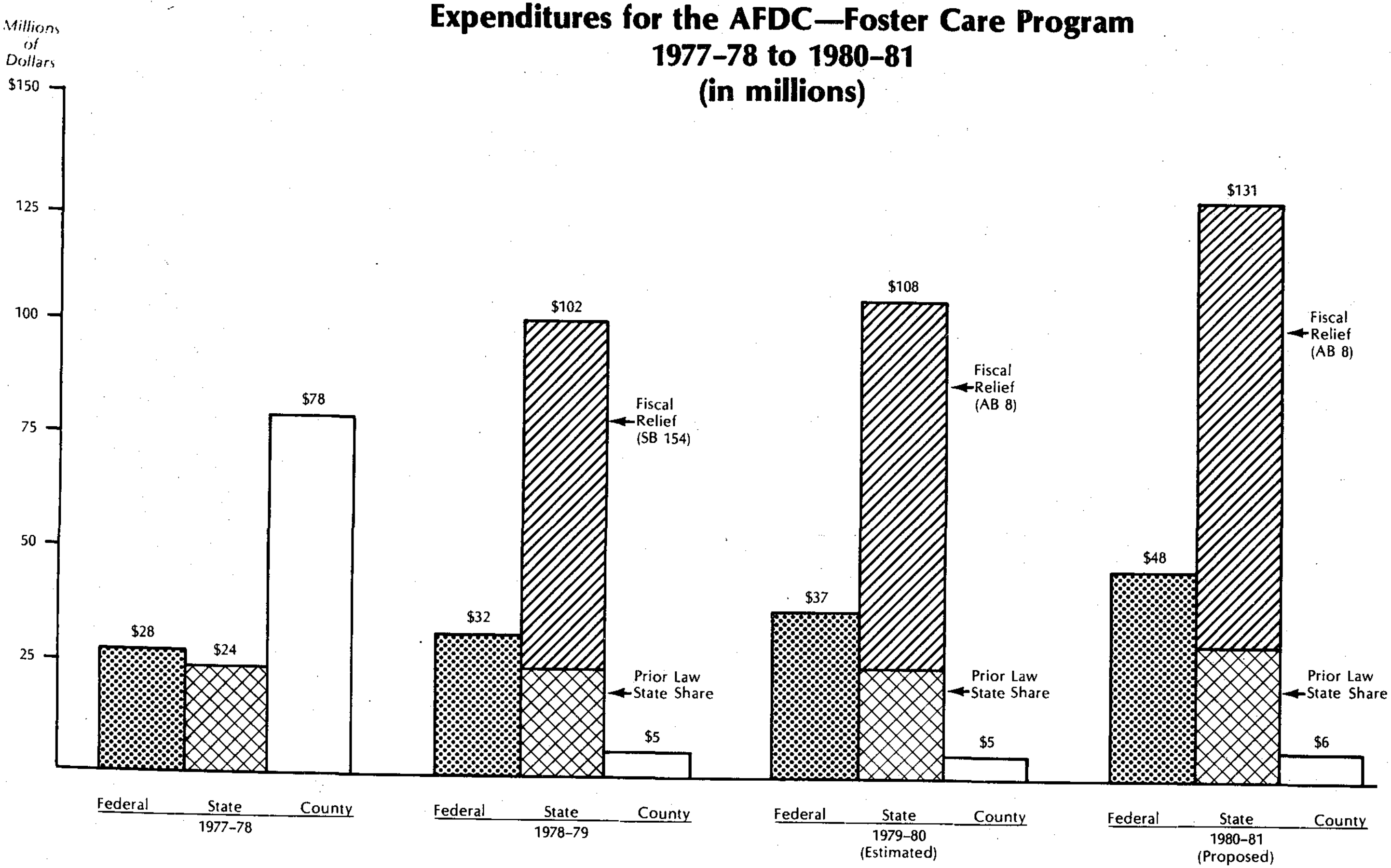
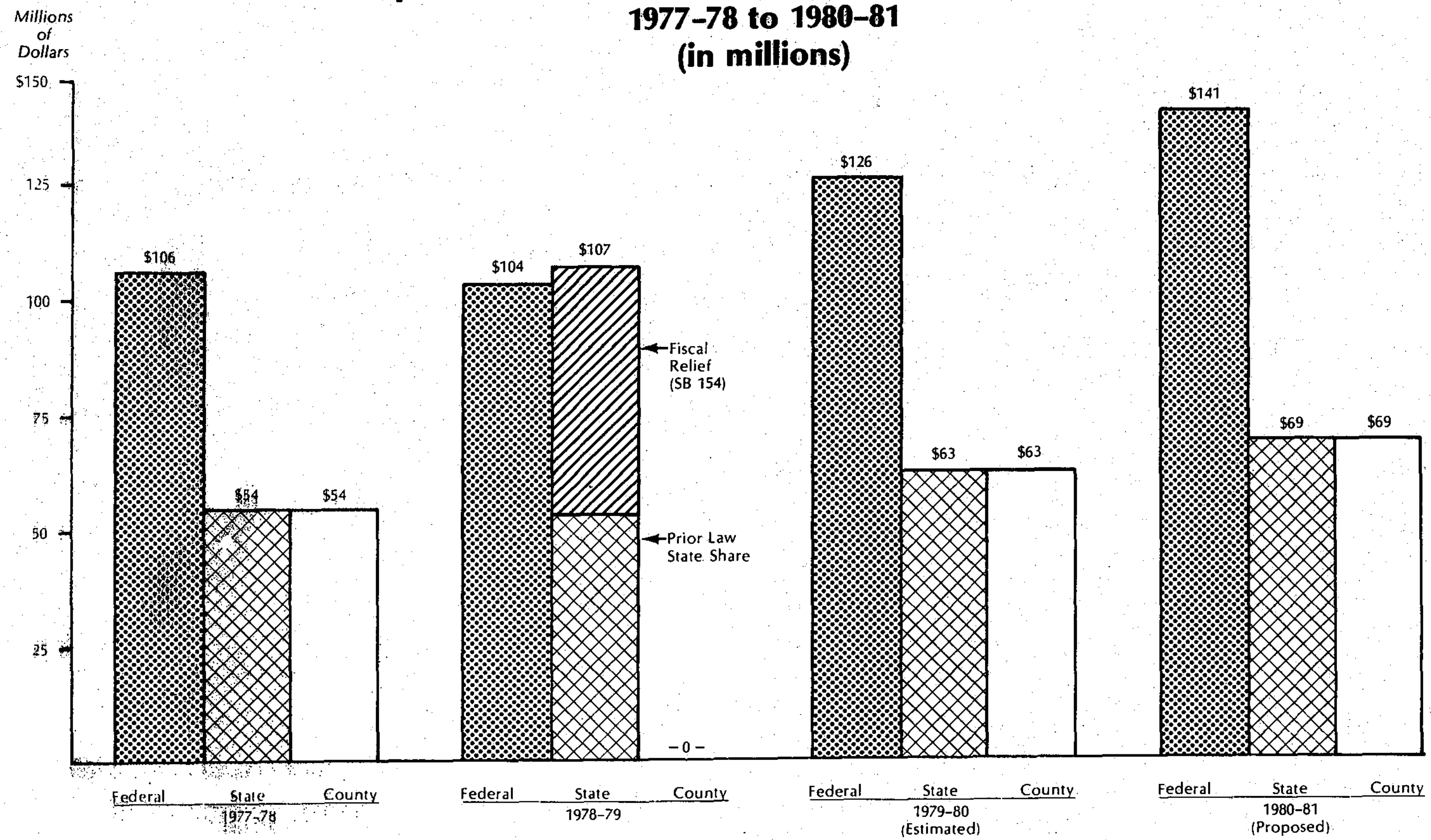


Chart 5
Expenditures for Administration of the AFDC Program 1977–78 to 1980–81 (in millions)



administrative costs of the APSB program, a special state program designed to encourage blind recipients to become self-supporting. As a result of AB 8, the state share of costs for this program increased from 50 to 83.3 percent, and county costs were reduced from 50 to 16.7 percent. Because of this provision, state costs will increase by $41,900 in 1979–80 and $45,700 in 1980–81.

9. *Food Stamp Administration.* The Food Stamp program permits eligible low-income families to obtain food stamps in order to increase their food buying power. Historically, the federal, state and county governments have shared the costs of administering the Food Stamp program. The federal government paid 50 percent of costs, county costs were capped at $21.5 million annually and the state paid the balance. For 1978–79, the state assumed the county share of administrative costs pursuant to SB 154. For 1979–80 and beyond, AB 8 eliminates the cap on county expenditures and requires the counties to pay 50 percent of the nonfederal share of costs. This provision will not result in additional costs to the state in 1979–80 or 1980–81.

10. *Child Support Enforcement Program—Administration.* The purpose of this program is to locate and obtain child support payments from absent welfare and nonwelfare parents. Prior to 1978–79, the federal government financed 75 percent of the administrative costs and the counties paid the remaining 25 percent. In 1978–79, the state paid the county share of administrative costs for this program as a result of SB 154. Beginning with 1979–80 the state will pay 75 percent of the costs of collecting child support from *nonwelfare* parents, if federal funds are not available for such purposes. This provision will increase state costs by $11.8 million in 1979–80 and $12.9 million in 1980–81. The counties will continue to pay 25 percent of administrative costs for collecting child support from *welfare* parents.

11. *Child Support Enforcement Program—Incentive Payments.* The Child Support Enforcement program provides incentive payments to counties for collecting child support from absent parents. Prior to 1979–80, the payments totaled 27.75 percent of collections, with the federal government paying 15 percent and the state providing 12.75 percent. AB 8 increased the state incentive payment to 15 percent until December 31, 1980 at which time it will revert to 12.75 percent. This provision results in increased state expenditures of $2.1 million in 1979–80 and $1.1 million in 1980–81.

12. *Work Incentive Program (WIN).* Prior to 1979–80, the federal, state and county governments shared the costs of reimbursing welfare recipients enrolled in the WIN program for (a) work and training-related expenses and (b) child care costs. The federal government paid 90 percent of costs, the state paid 6.75 percent and the counties paid 3.25 percent. AB 8 provides that the state will assume the county share of service costs for this program, which results in increased state expenditures of $133,023 in 1979–80 and $206,500 in 1980–81.

13. *Chapter 977, Statutes of 1976 (SB 30), Family Protection Pilot Projects.* AB 8 provides that the state's share of costs for family protection pilot projects, established in two counties under the provisions of Chapter 977, Statutes of 1976, and Chapter 21, Statutes of 1978, shall be the same as the state's share of AFDC Foster Care costs for fiscal years 1979–80

and 1980–81. AB 8 requires projects to be funded on the basis of 95 percent state and 5 percent county funds for the two fiscal years. Because of this change, state costs will increase by $566,525 in 1979–80 and $566,700 in 1980–81.

14. *Centralized Delivery System.* AB 8 requires the Department of Social Services to implement a case management, eligibility verification and benefit disbursement system in the counties by July 1, 1984. The system will verify eligibility and make payments for the following programs: (a) AFDC, (b) Food Stamps, (c) Medi-Cal, (d) Special Adult Programs, and, to the extent feasible, (e) Social Services and (f) Child Support Enforcement. The department is permitted to pilot test the system in several counties prior to actual statewide implementation. The department is required to report annually to the Legislature on its progress in implementing the system. The first report is due March 1, 1982. The department has submitted a budget proposal, discussed in detail later in the Analysis, to establish positions for this project.

Low Income Energy Assistance Program (PL 96-126)

On November 27, 1979, President Carter signed Public Law 96-126, which provides $1.35 billion in financial assistance for low-income persons to offset increased energy costs during federal fiscal year 1980 (October 1979–September 1980). Of this amount, $150 million was provided to the federal Community Services Administration for allocation to states for the ongoing Energy Crisis Assistance Program. The remaining $1.2 billion was provided to the Department of Health, Education and Welfare for two purposes. Approximately $400 million was designated for cash grants to recipients of assistance under the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program. The remaining $800 million was earmarked for other low-income populations.

California's Share of Funds. As a result of the enactment of PL 96-126, California received $50,557,205 for one-time grant payments to needy individuals in the current year. Of this amount, a total of $29,720,000 was distributed to SSI/SSP recipients in California. The federal government mailed the checks directly to SSI/SSP recipients on January 7, 1980. The grant for an SSI/SSP recipient in California was $44.

California also received $20,837,205 to provide cash grants to other low-income households. In a letter dated January 8, 1980, submitted under the provisions of Section 28 of the 1979 Budget Act, the Director of Finance requested that the Joint Legislative Budget Committee waive the 30-day waiting provision in order to provide energy assistance funds to food stamp households certified for benefits in December 1979. The request to waive the 30-day waiting period was approved.

Payments were issued by county welfare departments during February 1980 to an estimated 531,841 households. The amount of the energy assistance payments varied among counties based on a formula which took into consideration the climate and cost of energy in each county. The grant payments ranged from $25 for a food stamp household in Orange County to $103 in Mono County.

Grant and Administrative Costs. Of the $20,837,205 administered by the department, $18,753,485 (90 percent) was distributed as cash grants to food stamp households and $2,083,720 (10 percent) was set aside for county and state administrative costs.

Reporting Requirements of Chapter 1241, Statutes of 1978

Chapter 1241, Statutes of 1978 (SB 768), required the Department of Social Services to prepare preliminary and final reports on state administration of welfare and social services programs currently administered by county government. The act also required the Legislative Analyst to monitor and evaluate the development of these reports.

The department submitted its preliminary report to the Legislature on October 13, 1978. Our analysis of the preliminary report was provided to the Legislature in December 1978 (Report Number 78-15).

We received a copy of the department's final report on April 9, 1979. It identified four forms of state administration, including (1) the current county administrative system, (2) state/county contracts for local administration, (3) a Centralized Delivery System (CDS), and (4) full state administration of welfare programs. The department recommended that the state implement a Centralized Delivery System (CDS) which would consist of a statewide automated system to store and index the case records of welfare recipients, verify eligibility, compute grant amounts and issue warrants.

Subsequent to the department's final report, enactment of AB 8, required the department to implement a Centralized Delivery System in all counties by July 1, 1984. The functions of CDS as outlined by AB 8 are similar to those identified in the department's final report on state administration. The act contained funds for the department to establish positions in the current year. The department is requesting additional positions in the budget which we discuss later in this analysis. Our analysis of the department's proposal for developing and implementing a Centralized Delivery System is intended to meet the reporting requirements of Chapter 1241.

Disability Evaluation Determinations

The 1979–80 budget proposed 12 positions to process the increased number of medically indigent applicants referred to the medically needy program. The increase was due to an administrative revision in the referral application procedures.

The referral procedures were revised to better identify applicants who could qualify for assistance under the medically needy component of Medi-Cal *instead* of the medically indigent component. Medically indigent cases are funded 100 percent from the General Fund while medically needy cases are funded 50 percent from federal funds and 50 percent from state funds. The change in procedures ensures that the state will receive federal financial participation for the cost of care for those persons who are eligible under the federal program. Subsequently Chapter 451, Statutes of 1979 (AB 1251) required that persons applying for medical assistance first apply as medically needy rather than medically indigent. The department estimates General Fund savings to the Medi-Cal program of approximately $5.0 million in 1980–81 resulting from the shift of medically indigent cases to the medically needy classification.

Based on findings from a demonstration project in San Diego County, the department estimates that approximately 16 percent of the medically indigent cases statewide will be referred for evaluation as medically needy. In order to meet the projected increase in workload, the department has requested 89.1 positions for the budget year. Of these, 25 are redirected positions and 64.1 are new positions. The department anticipates full implementation of the new referral system for medically indigent applicants by March 1, 1981. Expenditures for the new positions are proposed at $1,808,263, of which the state's share is $913,727.

In view of the projected savings to the General Fund from the new referral system, we recommend approval of the requested positions. We will monitor the development of the caseload and savings projections of this project as they become available.

County Training Overbudgeted

We recommend a reduction of $72,072 all funds ($18,018 General Fund and $54,054 federal funds) to reflect the actual expenditure pattern for county training.

The department's schedule of operating expenses and equipment contains proposed expenditures of $96,096 for county training. The funds are used to assist county welfare departments to develop staff training programs. Counties use these funds to meet training needs which are not funded in their own budgets and to experiment with new training ideas and techniques. County welfare departments which wish to utilize the training funds submit proposals to the Department of Social Services. The department selects training projects for funding based on a specified criteria.

Historically, the department has budgeted approximately $92,000 for county training. Table 5 shows the amount of funds budgeted for county training and the amount of funds expended since 1976–77. During this period, actual expenditures have been lower than the amounts budgeted by margins of 71 percent to 89 percent.

As of January 1980, the department had approved two training proposals totaling $10,232, during the current year. This amounts to 10.6 percent of the funds budgeted for 1979–80. Several other proposals for county training projects are in various stages of review. It seems unlikely, however, that the other county training projects will be funded during the current year because departmental policy requires the projects to be completed during the fiscal year in which the proposal is approved.

Table 5
Expenditures for County Training
1976–77 to 1979–80

	1976–77	*1977–78*	*1978–79*	*Estimated 1979–80*
Budgeted	$91,520	$91,520	$91,520	$96,096
Expended	24,044	12,641	26,277	10,232 [a]
Amounts not expended	$67,476	$78,879	$65,243	$85,864
Percent	73.7%	86.2%	71.3%	89.4%

[a] Estimated expenditures based on two contracts approved as of January 1980.

Based on the historical data in Table 5 and anticipated expenditures in 1979–80, our analysis indicates that the department is overbudgeted for county training by 75 percent. Therefore, we recommend that proposed expenditures for county training be reduced by $72,072 all funds ($18,018 General Fund and $54,054 federal funds).

Facilities Operations Overbudgeted

We recommend that funds overbudgeted for facilities operations be deleted, for a savings of $58,564 ($24,978 General Fund, $31,314 federal funds, and $2,272 reimbursements).

The budget proposes $4,309,934 for facilities operations, an increase of $487,804, or 11 percent, over estimated current year expenditures. This increase includes (1) a 7 percent price increase ($258,929) and (2) an increase of $228,875 in budget adjustments related to position changes.

The Department of Finance's Budget Letter Number 4, issued July 27, 1979, instructed departments on allowable cost increases for operating expenses and equipment for the budget year. The departments were allowed to use either (1) a 7 percent general price increase or (2) specific cost factors for individual items and a 5 percent increase where specific factors were unavailable.

The Department of Social Services did not comply with these instructions in two instances when preparing the proposed budget for facilities operations. First, the department applied an inflation adjustment to long-term building leases which will not increase in the budget year. Second, the department applied a specific cost factor (35 percent in the budget year) to the heat, lights, and water component of facilities operations, while applying the *7 percent* allowable rate to all other subcategories. Department of Finance budget instructions allow the application of a specific price increase only if a *5 percent* increase is applied where specific factors are unavailable. Thus, the department's methodology results in overbudgeting of this operating expense component.

Accordingly, we recommend a reduction of $48,305 from the facilities operations category. We further recommend an additional reduction of $10,259 which has been included in the 1980–81 base budget as the result of using a similar methodology when adjusting current year expenditures. Elimination of the overbudgeted funds would result in a total savings of $58,564, consisting of $24,978 from the General Fund, $31,314 from federal funds, and $2,272 from reimbursements.

Data Processing Services Overbudgeted

We recommend deletion of funds overbudgeted for data processing services for a savings of $65,000 ($37,206 General Fund, $26,891 federal funds and $903 reimbursements).

The Department of Social Services contracts with the Health and Welfare Agency Consolidated Data Center for a number of data processing services. The budget proposes $900,000 in reimbursements from the Department of Social Services to the Consolidated Data Center for 1980–81. This is an increase of $65,000, or 7 percent, over revised 1979–80 expenditures of $835,000.

The Consolidated Data Center advises that it is not planning a rate increase in 1980–81. Moreover, the department's revised current year expenditure estimates may be reduced as a result of downward rate adjustments in January 1980. For these reasons, we recommend deletion of the $65,000 (all funds) budgeted for data center rate increases.

Fair Hearing Officers

We recommend deletion of six fair hearing officers, for a total savings of $236,693 ($139,175 General Fund and $97,518 federal funds). We further recommend that the Program Evaluation Unit in the Department of Finance evaluate the workload standard for hearing officers in the Department of Social Services and report its findings to the Legislature by December 15, 1980.

Background. The Office of Chief Referee within the Department of Social Services is responsible for conducting administrative hearings to determine the fairness of decisions made by county welfare departments in handling welfare cases. Recipients of aid have the right to appeal decisions by county welfare departments which they believe adversely affect their entitlements to assistance. Typically, a fair hearing is requested when a county action results in the denial, reduction or termination of assistance or services.

When a request for a fair hearing is made, the department schedules a hearing, notifies both the county and the claimant and assigns a hearing officer. After the hearing is concluded, the hearing officer writes a proposed opinion for adoption by the Director of the Department of Social Services.

Positions Requested for 1979–80. During hearings on the budget last year, the Legislature approved a request for 10 additional fair hearing positions. The department requested the positions based on (a) projected increases in workload and (b) the need to meet federal requirements to issue fair hearing decisions for food stamp cases within 60 days of a request for a hearing. Of the 10 positions approved, six were hearing officers required to hear cases and write decisions and four were clerical support staff. Three of the hearing officers were provided to meet the projected increase in normal caseload and three were provided to meet the food stamp requirement.

Projected Caseload Growth. Table 6 shows the department's projections of the fair hearing caseload for 1978–79 and 1979–80. The projections were made in March 1979 in preparation for the hearings on the 1979–80 budget and were the basis for requesting additional positions. In addition, Table 6 indicates the actual fair hearing caseload for 1978–79 and our estimate of the caseload for 1979–80.

Table 6 shows that the number of hearings requested in 1978–79 totaled 25,562. This was about 3,000 *less* than projected by the department. During this period, 8,761 fair hearing decisions were rendered, or 3,600 *less* than originally estimated by the department.

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The department's estimate of hearings for the current year is 28,033, slightly less than our estimate. The number of decisions estimated to be rendered in the current year is 11,373, or about 2,519 more than our estimate. The reason for this difference is that the department has assumed that approximately 60 percent of the requests will be withdrawn or dismissed and therefore will not require a hearing. However, actual experience in 1978–79 indicates that approximately 70 percent of the requests are withdrawn or dismissed prior to hearing. Using this withdrawal or dismissal rate, we estimate that the department will render approximately 8,850 decisions during the current year, in contrast to the department's 11,373 estimate.

Table 6
Fair Hearing Caseload
1978–79 and 1979–80

	Actual 1978–79		*Estimated 1979–80*	
	Department Projection	*Actual*	*Department Projection*	*Analyst Estimate*
Requests for hearings	28,527	25,562	28,033	29,514 [a]
Decisions rendered	12,391	8,761	11,373	8,854 [b]

[a] Based on actual experience for the first four months of 1979–80.
[b] Assumes withdrawal or dismissal of 70 percent of requests based on actual department experience in 1978–79.

Workload Standard. The estimated number of decisions rendered in a year is significant because this is the workload standard used for determining the number of hearing officers needed. For 1979–80, the department is authorized 54 hearing officer positions. Last year, the department identified an annual workload standard for both experienced and inexperienced hearing officers of 215 cases heard and written. Based on this workload standard and assuming 8,854 decisions disposed of in 1979–80, the department's staffing level should be 41 hearing officers (8,854 ÷ 215 = 41), rather than 54.

The department recently advised us that the workload standard of 215 decisions per hearing officer was no longer appropriate for two reasons. First, the types of cases handled by hearing officers are now more complex than they were in the past. As a result, these cases require additional writing time. Second, the federal requirement to issue food stamp decisions within 60 days of appeal (instead of 90 days for AFDC cases) requires additional staff. While fair hearing cases may have increased in complexity during the last few years, there is nothing to indicate that the increase is so great as to require 13 positions, or 32 percent more staff than justified by the workload standard (54 authorized positions −41 justified = 13 positions).

Reduce Hearing Officer Positions. We recommend that the six hearing officer positions authorized by the Legislature last year be eliminated for the following reasons. First, the number of fair hearing decisions in 1978–79 was lower than projected. Based on experience in the first four months of 1979–80 we estimate that the number of decisions will remain stable in the current year. Second, the department has redirected three of the six hearing officer positions authorized by the Legislature to perform other functions in the current year. One position was assigned as a supervisor in the San Francisco office. The remaining two positions were assigned to a unit which reviews fair hearing decisions for consistency with regulations and prior decisions. This would suggest that additional positions to hear cases and write decisions were not required in the current year.

If this recommendation is adopted, the department will have 48 hearing officers, or seven more than justified by the department's workload standard. We are not recommending that the other seven hearing officer positions be deleted because of the continued debate over the appropriate workload standard for these positions. To resolve this issue, we recommend that the following supplemental report language be adopted: "The Program Evaluation Unit in the Department of Finance shall evaluate the workload standard for hearing officers in the Department of Social Services and report its findings to the Legislature by December 15, 1980."

Affirmative Action—Temporary Help Positions

We recommend that Item 309 be reduced by $271,057, consisting of $135,528 from federal funds and $135,529 General Fund, by eliminating temporary help funding for affirmative action recruiting.

The budget proposes expenditures of $1,192,001 from all funds for 73.4 temporary help positions. This is a decrease of $97,965, or 7.6 percent, from expenditures in the current year. The funds are used for staff costs related to: (a) overtime and seasonal temporary help salaries, (b) vacation earnings of employees who leave the department, (c) overlapping of positions to provide training for new employees, (d) special consultants, and (e) recruitment and hiring of minority employees.

The budget proposes 21.5 temporary help positions for affirmative action hiring purposes in 1980–81. The total cost of the positions is estimated to be $271,057, which is the same amount as budgeted in the current year. The purpose of these funds is to assist the department in meeting its affirmative action goals through recruiting minority employees, upward mobility candidates, and students. Under this policy, the department places an individual in a temporary help position pending a vacancy in a permanent position. When a permanent position becomes available, the individual is transferred to it.

Background. In January 1977, the Department of Social Services (then the Department of Benefit Payments) submitted a budget request to establish 57.8 ongoing temporary help positions. Of that number 21.5 positions were to be used to assist the department achieve its affirmative action goals. We recommended approval of the 57.8 positions.

In the preparation of this analysis, we requested the Department of Social Services to identify how the temporary help positions for affirmative action had been used to achieve the department's goals. Our analysis of information provided by the department indicates that the continued use of temporary help positions for affirmative action recruiting purposes is no longer justified.

Goals Achieved. The department indicates that it has two affirmative

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action goals: (1) labor force parity—the department's demographic composition should reflect the ethnic and racial composition of the California civilian labor force and (2) population parity—the department's workforce should reflect the make-up of the California population. If labor force parity is the objective, the department has achieved or exceeded its affirmative action goals for ethnic and racial composition in total and for most categories, as shown in Table 7. For example, using the labor force parity goal, 23.7 percent of the department's workforce should be from minority groups. The department's actual minority composition is 35.1 percent. In addition, the department has achieved its goals for specific ethnic categories with the exception of hispanics.

If population parity is the measure, the department has achieved its goals both in total and for specific ethnic categories except hispanics and "other" minorities as shown in Table 7.

Table 7
Department of Social Services
Comparison of Affirmative Action Goals
with Actual Experience for All Personnel Categories
October 1979

	Ethnic and Racial Composition						
Goal	*Blacks*	*Hispanics*	*Asians*	*Native Americans*	*Filipino*	*Other*	*Total*
Labor force parity	6.3%	13.7%	2.3%	0.4%	0.7%	0.3%	23.7%
Population parity	7.0	15.5	2.8	0.5	0.8	0.9	27.5
Actual representation	14.8	9.1	6.5	1.1	3.1	0.5	35.1

Table 8 compares the department's affirmative action goals for the placement of minority employees in professional positions with actual experience. With the exception of hispanics and "other" minorities, the department has achieved or exceeded its minority recruiting goals.

Table 8
Department of Social Services
Comparison of Affirmative Action Goals
with Actual Experience for Professional Categories
October 1979

	Ethnic and Racial Composition						
Goal	*Blacks*	*Hispanics*	*Asians*	*Native Americans*	*Filipino*	*Other*	*Total*
Labor force parity	6.3%	13.7%	2.3%	0.4%	0.7%	0.3%	23.7%
Population parity	7.0	15.5	2.8	0.5	0.8	0.9	27.5
Actual representation	8.5	11.1	6.9	0.7	2.6	0.3	30.1

Table 9 compares the department's affirmative action goals for minority representation in managerial positions with actual experience. With the exception of hispanics and "others", the department has achieved or exceeded its goals.

Table 9
Department of Social Services
Comparison of Affirmative Action Goals
With Actual Experience for Managerial Categories
October 1979

	Ethnic and Racial Composition						
Goal	*Blacks*	*Hispanics*	*Asians*	*Native Americans*	*Filipino*	*Other*	*Total*
Labor force parity	6.3%	13.7%	2.3%	0.4%	0.7%	0.3%	23.7%
Population parity	7.0	15.5	2.8	0.5	0.8	0.9	27.5
Actual representation	11.5	5.4	5.4	1.7	0.9	0.6	25.5

These data suggest that the department has made significant progress in achieving its affirmative action goals and that there is no longer a need for the department to rely upon this recruiting mechanism to achieve its objectives.

Procedure Not Available to Other Departments. During the current hiring freeze, the use of the temporary help blanket for recruiting purposes provides the Department of Social Services with a hiring procedure which is generally unavailable to other departments. It is our understanding that other departments of comparable size have not been provided funds through temporary help positions to meet their affirmative action goals. Instead, the other departments achieve their goals by waiting for a vacancy to occur and then filling it with an available applicant. The Department of Social Services could also rely upon this method for meeting its affirmative action goals.

Transitioning Into Permanent Positions. While use of temporary help positions has assisted the department to achieve its affirmative action goals, the department has had some problems in moving certain groups of individuals from the affirmative action blanket into permanent positions. During 1978–79, 60 persons were placed in the affirmative action positions, as shown in Table 10. Of this number, 25 were from the minority recruitment program, 26 were from the student recruitment program and nine were in the upward mobility category. Although student recruitment constituted 43 percent of the affirmative action blanket usage, it accounted for only 12 percent of the persons transitioned to permanent positions during 1978–79. Because of the relatively few permanent graduate student positions in the department, it is unlikely that significant numbers of students would be transitioned into permanent positions.

For these reasons, we recommend that funds for affirmative action temporary help positions be deleted, for a savings of $271,057 ($135,529 General Fund and $135,528 federal funds).

Table 10
Department of Social Services
Affirmative Action—Temporary Help Positions

	Actual 1978–79					*Actual 1979–80 (through December 1979)*				
		Transitioned to Permanent Position					*Transitioned to Permanent Position*			
Affirmative Action Program	*Total Persons*	*Number*	*Percent*	*In Blanket As of 6-30-79*	*Separated*	*Total Persons*	*Number*	*Percent*	*In Blanket As of 1-4-80*	*Separated*
Minority recruitment	25	18	72%	1	6	13	5	38%	6	2
Upward mobility [a]	9	6	67	2	1	5	1	20	4	0
Student recruitment [b]	26	3	12	5	18	10	0	0	7	3
Totals	60	27	45%	8	25	28	6	21%	17	5

[a] Upward mobility program provides opportunities for advancement for state employees in low-paying occupations.
[b] Recruitment of students for full-time work during the summer and part-time work throughout the year.

Inappropriate Use of Special Consultants

We recommend elimination of temporary help funding for special consultants, for a savings of $76,358 ($50,869 General Fund, $25,322 federal funds and $167 reimbursements). We further recommend Budget Bill language requiring Department of Finance approval of any special consultant positions to be established with temporary help funds.

The budget proposes expenditures of $1,192,001 from all funds for 73.4 temporary help positions in the Department of Social Services. This is a decrease of $97,965, or 7.4 percent, from expenditures in the current year. These funds are used for staff costs related to: (a) overtime and seasonal temporary help salaries, (b) vacation earnings of employees who leave the department, (c) recruitment and hiring of minority employees, (d) overlapping of positions to provide training for new employees and (e) special consultants.

Legislative Action. In the *Analysis of the 1979 Budget Bill,* we identified several problems with the department's use of special consultants. On the basis of our review, we recommended that temporary help funding for special consultants be eliminated for 1979–80. The Legislature adopted this recommendation and reduced funds for temporary help by $71,699 ($53,774 federal funds and $17,925 General Fund).

In the preparation of this analysis, we requested the department to identify any special consultants established during 1979–80. The department provided information on seven consultants. Our analysis of the information provided by the department indicates that the department is continuing to use special consultants financed with temporary help funding. This is inappropriate for two reasons.

First, using funds to establish special consultant positions for which the Legislature denied funds clearly violates both legislative intent and Control Section 15 of the 1979 Budget Act. That section provides that "no appropriation made by this act or any other provision of law may be combined or used . . . to achieve any purpose which has been denied by any formal action of the Legislature."

Second, consultants were hired to perform functions which duplicate duties of existing authorized positions. This is evident in the following examples.

Indochinese Refugee Consultants. For example, during the budget hearings last year, the department requested that the Legislature continue funding for four positions in the Adult and Family Services Division to assist in the administration of the Indochinese Refugee Assistance Program (IRAP). The positions were in addition to 2.5 permanent positions previously assigned to the division for IRAP administration. The Legislature was advised that the four positions would monitor the performance of departmental contractors who were providing social services, English as a second language, vocational training and employment services to Indochinese refugees. The Legislature approved funds for the four positions, as requested.

Subsequently, however, the department hired three special consultants to review and evaluate the various services provided to the Indochinese refugees by departmental contractors. The services include social services, English as a second language (ESL) and vocational training. In requesting

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the State Personnel Board to approve these contracts, the department stated that the consultants would:

1. "Examine the linkages between these provider agencies (contractors) and other agencies and community groups which also provide assistance to the newly arriving refugees from Indochina;
2. "Determine if the specific services available through the contract agencies are relevant and appropriate to refugees' needs;
3. "Determine if the agencies use a broadly coordinated approach to avoid service gaps and service duplication;
4. "File a report of findings with specific recommendations concerning needs for improved coordination of efforts among agencies to overcome those factors most tending to prolong the refugees' dependency upon public assistance programs in their assimilation into the culture and economy of California."

The department indicates that the consultants' report will be available in February 1980.

The Legislature recognized the need for such monitoring and evaluation activities when it approved permanent funding of the four positions requested by the department. Consequently, these consultants duplicate the functions performed by positions previously authorized by the Legislature.

Moreover, our analysis indicates that the efforts of the special consultants also duplicate an evaluation conducted by a private research firm under contract to the department in 1979–80. The firm was hired to evaluate the social services provided by 14 private agencies to refugees between July 1978 and June 1979. Specifically, the objectives of the study were to:

1. Identify the number of refugees receiving services from private agencies;
2. Identify the service needs of the refugees in terms of the statutory goal of self-sufficiency;
3. Evaluate the effectiveness of the services provided in making refugees self-sufficient;
4. Determine if certain groups of refugees are receiving a disproportionate amount of services;
5. Recommend resources required to fill the gap between identified service needs and service delivery;
6. Identify the various systems by which private agencies deliver social services and evaluate their effectiveness.

The firm has completed its report and submitted its findings to the department.

Minority Affairs Consultant. In addition, the department has hired a special consultant to develop communications with various minority organizations concerning departmental programs. This position is under the general supervision of the Assistant to the Director of Community Affairs. Our analysis indicates that the special consultant duplicates the duties of the assistant director position. One of the duties of this position is to develop communications with the various groups served by the department.

Additional Controls Needed. The amount of funds proposed for temporary help positions for 1980–81 is based on prior-year expenditures rather than on an identification of specific budget-year needs. Our analysis of information provided by the department, indicates that the department will spend approximately $76,358 (all funds) in the current year for special consultants. Given the problems with the department's use of special consultants in the past, and the continuation of these problems during the current year, we recommend that temporary help funds in Item 309 be reduced by $76,358.

Currently, requests to fund special consultants are reviewed by the State Personnel Board, but not by the Department of Finance. The State Personnal Board reviews such requests to determine the appropriateness of the salary range and the availability of civil service employees to perform the work. Clearly this review has been inadequate, as the department has hired special consultants to perform tasks for which it already has been authorized positions.

Therefore, we recommend adoption of the following Budget Bill language to require the Department of Finance to review and approve the establishment of special consultants by the Department of Social Services.

"Provided further, that the department shall not establish special consultant positions funded through temporary help funds prior to review and approval by the Department of Finance."

Centralized Delivery System (CDS)

We recommend:

1. *Budget Bill language be added requiring that the department's feasibility study include an identification of the total state and local resources required and schedule of events necessary to complete the development of CDS;*
2. *Budget Bill language be added providing that positions for phases 2 and 3 of the CDS project not be established until specified approval processes have been completed and that funds not expended for approved budgeted positions revert.*
3. *$796,413 budgeted for electronic data processing be deleted ($398,207 General Fund and $398,206 federal funds).*
4. *Funds budgeted for the CDS project be scheduled in a separate budget item.*

Provisions of AB 8. AB 8 requires the Department of Social Services to implement a Centralized Welfare Delivery System (CDS) in all counties by July 1, 1984. The act states that the system will assist in the delivery of benefits to eligible recipients for the following programs: Aid to Families with Dependent Children (AFDC); Food Stamps; Medi-Cal eligibility; Aid for Adoption of Children; Special Adult programs; and to the extent feasible, Social Services and Child Support Enforcement.

The act identifies the following system goals: (1) prompt and accurate verification of eligibility, (2) accurate computation and timely disbursal of benefits, (3) uniform treatment of recipients, (4) reduction of administrative complexity, (5) enforcement of management and fiscal controls, and (6) collection of management information.

DEPARTMENT OF SOCIAL SERVICES—Continued

CDS Division. During the current year, the department established a separate division which is charged with the responsibility to define, design, develop and implement CDS. The department is currently working on the definition phase of CDS which will produce a feasibility study detailing the proposed system design.

Positions Requested for CDS. The department proposes to administratively establish 89 positions for CDS in the current year as shown in Table 11. The budget proposes to continue these 89 positions and establish 43 new positions, for a total of 132 positions in 1980–81.

The Department of Finance has approved the establishment of 65 of the 89 positions in the current year to work on Phase 1—Definition of the CDS project. The budget states that approval of the remaining 67 positions (24 in the current year for Phase 2—Design and 43 in the budget year for Phase 3—Development) is subject to the Department of Social Services identifying how the positions will be used to design and implement CDS.

Departmental Accomplishments. The department has accomplished several important tasks related to the CDS project in a relatively short period of time. It has recruited personnel, assembled an organizational structure and started the project's definition phase (Phase 1). The department advises that an advisory council has been established to provide advice and recommendations to the department for consideration when developing and implementing CDS.

We have several concerns with certain aspects of the department's approach to the development of CDS.

1. *Amount of Time Required to Implement CDS.* AB 8 allows the department approximately five years (July 1979 to July 1984) in which to define, design, develop and implement CDS. Discussions with departmental staff suggest that the department is reluctant to seek a revision in the date specified for full implementation of the system. Our analysis indicates that the statutory time frames are very demanding, and that several factors may affect the department's ability to achieve the "time frames".

First, the department has interpreted the act as requiring that a highly complex automated system be in operation within five years. Historically, estimates of the time required to implement systems of this magnitude have been too optimistic. For example, Los Angeles County's Welfare Case Management Information System (WCMIS) has experienced several delays and the scope of the system has had to be redefined more than once. Although the WCMIS project was initiated in 1971, the central index was not operational until 1977. The system is not scheduled to start issuing checks to AFDC recipients and authorizations to participate in the Food Stamp program until October 1980, nine years after the project's initiation date.

Second, there is currently a shortage of qualified EDP professional staff in state government. As of December 1979, there was approximately a 9.4 percent vacancy rate in state agencies for EDP staff including computer programmers, analysts and computer operators.

Third, the department has not had enough time to define all of the requirements of the system, and therefore does not know how much time

Table 11
Centralized Delivery System Project
Positions Requested
1979–80 and 1980–81

	Number of Positions		*Costs*					
			1979–80			*1980–81*		
	1979–80	*1980–81*	*Total*	*General Fund*[a]	*Federal Funds*	*Total*	*General Fund*	*Federal Funds*
Project Staff								
Approved	40	40	$1,060,854	$530,427	$530,427	$2,202,003	$1,101,002	$1,101,001
Pending approval by Department of Finance	24	65	402,746	201,373	201,373	1,934,559	967,280	967,279
Program Staff								
Approved	25	25	553,900	327,058	226,842	756,738	446,352	310,386
Pending approval by Department of Finance	—	2	—	—	—	61,394	61,394	—
Totals	89	132	$2,017,500	$1,058,858	$958,642	$4,954,694	$2,576,028	$2,378,666
Approved	(65)	(65)	($1,614,754)	($857,485)	($757,269)	($2,958,741)	($1,547,354)	($1,411,387)
Pending approval by Department of Finance	(24)	(67)	($402,746)	($201,373)	($201,373)	($1,995,953)	($1,028,674)	($967,279)

[a] Funds provided in Chapter 282, Statutes of 1979 (AB 8).

DEPARTMENT OF SOCIAL SERVICES—Continued

is required to implement CDS. The department is currently revising its interim time frames leading to implementation in July 1984. As a result of this revision process, the department has moved back the date for pilot testing CDS from July 1981 to October 1981.

While the department should make every attempt to meet the implementation date established by AB 8, the department should make a realistic assessment of the reasonableness of that implementation date.

2. *Feasibility Study.* The State Administrative Manual and Control Section 4 of the Budget Act require that a feasibility study report (FSR) be prepared prior to the expenditure of funds for EDP projects of this magnitude. The department has indicated that it plans to issue a feasibility study approximately July 15, 1980. The study will identify (a) the welfare programs to be included in CDS, (b) the functions which the system will perform and (c) the method for implementing CDS.

This is a critical document which also should identify the impact of implementing CDS on the state and county governments. In addition to addressing electronic data processing methods, the feasibility study report should identify (1) the total state and local resources required, and a schedule of events or tasks necessary to complete CDS, (2) the cost and staffing impact of this system on county EDP operations, and (3) the department's plan to integrate CDS with the Welfare Case Management Information System in Los Angeles County and the Welfare Case Data Management System located in 11 other counties.

In order to identify these system impacts for the Legislature, we recommend the following Budget Bill language:

"Provided further that the department's feasibility study report include an identification of (1) the total state and local resources required and schedule of events necessary to implement CDS, (2) an identification of the impact of CDS on current county EDP operations and (3) an identification of how the existing WCMIS and Case Data Management Systems will be incorporated into CDS."

3. *Undefined Positions.* The budget indicates that 67 of the 132 positions proposed for 1980–81 have not yet been approved by the Department of Finance. The positions not yet approved would work on the design and development phases (Phases 2 and 3) of the CDS project. The budget proposes to reserve $1,995,953 ($1,028,674 General Fund and $967,279 federal funds) for the 67 positions pending clarification of how they will be used to design and develop CDS.

Because the administration is unable to identify how the 67 positions will be used in the budget year, we have no basis upon which to recommend that they be approved. In addition, we believe that until the feasibility study report is completed, the department itself will not know what programs will be included in CDS and the personnel resources required for this system in 1980–81. On the other hand, we recognize that the department will require positions in 1980–81 for design and development activities even though it is unable to identify their functions at this time.

We recommend approval of the funds for the 67 positions contingent upon the adoption of Budget Bill language that prohibits the expenditure of funds for these positions until (a) the Department of Finance approves the department's feasibility study, (b) the federal government approves federal financial participation for development of the CDS project and (c) after 30 days notification of such approvals and submission of the approved feasibility study report to the Joint Legislative Budget Committee. We further recommend that Budget Bill language specify that any funds not expended for approved budgeted positions revert to the General Fund. The following language is consistent with these recommendations:

"Provided that the $1,995,953 ($1,028,674 General Fund and $967,279 federal funds) appropriated by this item for Phases 2 (design) and 3 (development) of the CDS project may not be expended until (a) the Department of Finance approves the Department of Social Services, feasibility study, (b) the federal government has approved federal financial participation for development of the CDS project, and (c) after 30-days notification of such approvals and submission of the approved feasibility study report to the Joint Legislative Budget Committee."

"Provided further, that any amount of the $1,995,953 not expended for approved, budgeted positions for CDS revert."

Adoption of these recommendations will allow (a) the department adequate personnel to complete the definition phase of CDS and (b) the Legislature the opportunity to review the feasibility study report and the department's personnel requirements before the department proceeds with subsequent phases of CDS.

4. *Funds Budgeted for Electronic Data Processing (EDP).* The department has budgeted $796,413 in 1980–81 for EDP related to CDS. The department maintains that the funds are needed to carry out the pilot phase of the project. AB 8 allows the department to test CDS in several counties prior to statewide implementation.

Our analysis indicates that these funds are not justified for 1980–81. First, given delays in the CDS schedule, the funds will not be required until fiscal year 1981–82. The department originally projected that it would start pilot testing in July 1981, thus requiring that the funds be budgeted for 1980–81. However, the department now projects that pilot testing will not start until October 1981. Our review indicates that this date may be revised further depending upon the results of the feasibility study.

Second, based on conversations with departmental staff, it is unclear whether the requested funds will be used to purchase equipment or to pay for services from the Health and Welfare Data Center.

Third, the department is unable to identify the number of counties which will participate in the pilot test.

Because the pilot project phase of CDS will not start until October 1981 (fiscal year 1981–82) at the earliest, we recommend that these funds be eliminated from the 1980–81 budget, and requested for the budget year in which they will be expended. This will result in savings in the budget year of $796,413 ($398,207 General Fund and $398,206 federal funds).

5. *Budget CDS Appropriations in Separate Item.* Because of the potential costs of this project and the time required to implement it, we recommend that the funds for CDS be scheduled in a separate budget item. Separate scheduling of the costs will allow the Legislature to track the development, maintenance and operational costs of the CDS project.

DEPARTMENT OF SOCIAL SERVICES—Continued

Child Support Enforcement Program—Positions to Increase Collections

We recommend that the 4.5 positions requested for the Child Support Operations Bureau be augmented by 1.5 positions, for increased costs of $32,521 ($13,008 General Fund and $19,513 federal funds). We further recommend that the six positions be limited until June 30, 1982, subject to the achievement of specified goals.

The purpose of the Child Support Enforcement program is to locate and obtain child support payments from absent welfare and nonwelfare parents. Support payments collected from absent parents whose children are receiving public assistance under the Aid to Families with Dependent Children (AFDC) program are used to offset county, state and federal expenditures for this program.

The budget requests an additional 4.5 positions for the Child Support Enforcement Branch at a cost of $100,835 all funds ($40,344 General Fund and $60,491 federal funds). The positions will be assigned to the Child Support Operations Bureau and will be used to: (1) monitor county operations of the program, and (2) recommend and implement corrective action plans for improving county performance.

The department originally requested six positions to perform these functions. In its proposal, the department identified the following goals it expected to achieve if the positions were approved: (1) based on federal standards collections from absent parents whose children are receiving welfare payments would increase from 4 percent to 10 percent of AFDC expenditures by the end of 1981–82 and (2) child support collections from absent AFDC parents in Los Angeles County, which has the lowest collection rate of any county, would double by the end of 1980–81.

It is estimated that the state will collect about $94.9 million in 1979–80 from absent AFDC parents. This amount is equal to 4.5 percent of total estimated AFDC expenditures ($2,106.1 million) in the current year. Of the $94.9 million collected, $31.6 million will be returned to the state to offset its expenditures for the AFDC program. If the state collected 10 percent of AFDC expenditures as proposed by the department, the amount returned to the state in the current year would be about $69 million.

We support the department's efforts to increase child support collections and its willingness to identify measureable goals to be achieved by the requested positions. Because the department's anticipated results were based on six positions, we recommend an augmentation of 1.5 positions to the 4.5 new positions included in the Governor's Budget. We further recommend that the six positions be limited to June 30, 1982, subject to the department achieving the following goals identified in its budget request by that date: (1) increase collections from absent AFDC parents to 10 percent of AFDC expenditures and (2) double the collections from absent welfare parents in Los Angeles County. If the department achieves these goals, we would recommend that the positions be made permanent.

Public Inquiry and Response

We recommend that two proposed positions for the Public Inquiry and Response Branch be deleted, for a savings of $48,002 ($30,247 General Fund, $9,600 in federal funds and $8,155 in reimbursements).

The budget proposes $71,755 ($45,385 from the General Fund, $14,387 in federal funds and $11,983 in reimbursements) to establish 3.5 positions in the Public Inquiry and Response Branch of the Planning and Review Division. This division consists of four branches including Planning and Development and Public Inquiry and Response. The Public Inquiry and Response Branch (1) responds to inquiries from welfare applicants, county welfare departments, attorneys and other individuals, regarding the public assistance and social services programs administered by the department, (2) translates departmental forms and publications into Spanish and responds to non-English requests for information, (3) monitors child protective service referrals to California county welfare departments from other states, and (4) provides support to the chief referee in fair hearing matters.

This branch currently is authorized 27 positions. An additional staff services manager, staff services analyst and 1.5 clerical positions are proposed for the budget year. The department advises that there are insufficient manager positions in this branch to supervise existing staff effectively, and therefore it is requesting a new staff services manager position.

Recommended Staffing Ratios. The State Personnel Board (SPB), in a recent audit of personnel functions delegated to the Department of Social Services, stated that the minimum allowable ratio of managers to analysts is one to three. Staff of the State Personnel Board advise that the maximum recommended ratio is one manager to eight analysts.

The current manager to analyst ratio in the Public Inquiry and Response Branch is two to sixteen. On this basis, an additional manager appears to be justified for the Branch. At the same time, however, there are units in the division with more managers per analyst than the maximum established by the State Personnel Board. In the Long Range Planning Bureau, for example, the manager to analyst ratio is two to three. Consequently, our review indicates that the department has sufficient supervisory staff within the division to transfer a manager position to the branch without additional staff.

Positions Redirected. The department is requesting a staff services analyst position for the complaint and case review unit of the branch to help overcome existing backlogs in this unit's work. During 1979–80, three analyst positions in the complaint and case review unit of the branch were redirected to other functions: (1) one governmental program analyst was on a Kepner-Tregoe training assignment from July to December 1979, (2) another moved to the Welfare Program Operations Division to assist in the establishment of a food stamp complaint processing system, and (3) the third analyst was loaned to the Governor's Office to perform census outreach. Because departmental priorities have redirected these positions from the Public Inquiry and Response Branch during the current year, we have no basis for recommending that approval be given for an additional analyst position in this unit to overcome "existing backlogs."

DEPARTMENT OF SOCIAL SERVICES—Continued

Our review of existing departmental resources indicates that the needs of the Public Inquiry and Response Branch can be met without the establishment of additional analyst and manager positions. We recommend the deletion of the proposed staff services manager and staff services analyst, for a savings, all funds, of $48,002 ($30,247 from General Fund, $9,600 in federal funds and $8,155 in reimbursements).

Title XX Training

The Title XX training program consists of (1) county administered staff development, (2) services training conducted by universities for county welfare department staff, and (3) training for direct service providers, such as foster parents, child day care workers and providers of in-home supportive services. Federal grants to the states for Title XX training were unlimited prior to the passage of PL 96-86, effective in the 1980 federal fiscal year. The act established a national spending limit of $75 million for Title XX training programs. As a result of this limitation on funds, California's 1980 Title XX training allocation was reduced to $3.8 million by the Department of Health, Education and Welfare. This reduced the amount of federal Title XX training funds available to California during state fiscal year 1979–80 from $12.9 million to $3.8 million, a difference of, $9.1 million.

Pending federal legislation—HR 3434, which amends the Social Security Act regarding adoptions assistance, foster care and child welfare services —would establish a permanent ceiling on Title XX training funds equal to 4 percent of each state's Title XX services allocations. The budget, which assumes enactment of HR 3434, proposes $13 million for Title XX training in 1980–81. If HR 3434 is not enacted, the level of federal funding for Title XX training is not known.

Thus, if HR 3434 is not enacted, funding for California's Title XX training program may be limited to an amount less than proposed in the budget. The midyear reduction in federal funds during 1979–80 forced the department to (1) discontinue the review of proposals for foster care and child care training, (2) terminate negotiations for the development of a cost accounting system, and (3) cancel contracts with universities conducting services training. If Title XX training funds are less than the amount budgeted in anticipation of the passage of HR 3434, the level of Title XX program activity will have to be adjusted accordingly. Title XX funding is discussed further in our analysis of Item 312.

Title XX Training Management

We recommend (1) two new positions be limited to June 30, 1982, and (2) supplemental language be adopted requiring the Department of Social Services to report to the Legislature by December 15, 1981, regarding (a) progress toward establishing standard procedures for the management and evaluation of Title XX training programs and (b) the effectiveness and accomplishments of the programs.

The budget proposes $61,876 (consisting of $46,407 in federal funds and $15,469 from the General Fund) to establish two positions to manage and evaluate Title XX training programs conducted by universities for county welfare department staff and direct service providers.

In our *Analysis of the 1979–80 Budget Bill*, we recommended that funds for Title XX training be deleted from the budget because (1) we were unable to identify how funds budgeted for social services training were to be spent in 1979–80 and (2) Title XX training programs were being managed in violation of the State Administrative Manual. During the current year, the Department of Social Services has attempted to address the problems we had identified by (1) contracting with a former county staff development officer to advise county welfare departments on the availability of Title XX training programs and (2) establishing statewide priorities for Title XX training.

The addition of these two new positions should enable the department to implement an effective management and evaluation system for the Title XX training program. However, given the uncertainty over the funding level for this program and the Legislature's need to review the management and effectiveness of Title XX training, we recommend (1) the two new positions be limited to June 30, 1982, and (2) the following supplemental report language be adopted:

"The department shall submit a report to the Legislature by December 15, 1981 (a) identifying the department's progress toward establishing standard procedures for the management and evaluation of Title XX training programs, and (b) reporting on the effectiveness and accomplishments of these programs."

Family and Children's Services Position

We recommend deletion of three positions proposed in the Family and Children's Services Policy Bureau, for a General Fund reduction of $92,-091.

The budget proposes $92,091 from the General Fund to establish three social services consultant positions in the Family and Children's Services Policy Bureau. These positions would be limited to two years, ending June 30, 1982. The consultants are requested to: (1) implement pending federal legislation (HR 3434) affecting adoptions, child welfare services and foster care (discussed in Item 312), and (2) develop regulations for implementation of the Indian Child Welfare Act.

Our analysis indicates that the requested positions are not justified for the following reasons:

1. *Draft Regulations Already Prepared.* The department already has incorporated many of the provisions of HR 3434 in draft regulations developed by its Social Services Policy Task Force (discussed in Item 312). The extent to which these regulations must be modified to comply with HR 3434 is uncertain. In addition, the department has also prepared draft regulations for implementation of the Indian Child Welfare Act. The need for additional resources to develop regulations therefore has not been demonstrated.

2. *Reporting Activities Currently Underway.* Current state law already mandates many of the statistical reporting requirements included in HR 3434. For example, the department is already required to develop a comprehensive management information system for foster care placement and the AFDC Boarding Homes and Institutions (BHI) program, prepare an annual report on foster care, and report on family protection service activities. Our review indicates that these ongoing activities will

DEPARTMENT OF SOCIAL SERVICES—Continued

respond to a major portion of the HR 3434 reporting requirements.

3. *Positions Already Provided.* Last year the Legislature approved the department's request to establish three positions in the Family and Children's Services Branch for a two-year limited term in order to (a) develop child protection and foster care policies, (b) draft necessary regulations, and (c) implement these policies and assess their effect on county programs. During the first six months of 1979–80, the Family and Children's Services Policy Bureau allocated 2.6 existing personnel-years to the department's task force effort to develop new regulations. The bureau used its three new positions to replace those staff temporarily assigned to the task force. With the completion of the draft regulations, task force staff are being returned to their original assignments. By the beginning of 1980–81 the three positions added by the Budget Act of 1979 will be available for activities such as implementation of HR 3434.

4. *Positions Vacant in Bureau.* Our analysis indicates this bureau will have a 14 percent vacancy rate during 1979–80. While this high vacancy rate is largely attributable to the difficulty in filling newly authorized positions, the Family and Children's Services Policy Bureau will be able to meet the workload demands for at least 2.5 positions (14 percent of 1979–80 authorized positions) simply by filling its vacancies.

Because the department already has adequate resources for the implementation of HR 3434 and the Indian Child Welfare Act, we recommend that the three positions proposed for the Family and Children's Services Policy Bureau be deleted, for a General Fund savings of $92,091.

Indochinese Refugee Assistance Program

The passage of PL 96-110, the Cambodian Relief Act, assures 100 percent federal funding for the Indochinese Refugee Assistance Program (IRAP) until September 30, 1981. This program includes (1) nationwide resettlement activities conducted by private, charitable organizations, (2) cash assistance, medical assistance, educational programs and social services delivered by state and county agencies, and (3) social services, job placement and language training provided by private contractors.

Pending Federal Legislation. Two versions of a comprehensive federal refugee assistance bill continuing IRAP beyond 1981 will be considered by a conference committee in 1980. Both bills before the conferees establish limits on the period of time, after arrival in the United States, that individual refugees may receive 100 percent federally funded cash assistance payments.

Unknown Number of Indochinese Refugees in California. The number of refugees currently residing in California is not known. Estimates vary from 87,325 to 138,800, a difference of 59 percent. An accurate estimate is not available because (1) voluntary agencies responsible for the resettlement of Indochinese refugees have not maintained accurate counts of refugees coming into California and (2) many refugees migrate to California after being resettled in other states.

Assistance to Indochinese Refugees in California. In California, programs for assisting Indochinese refugees are conducted primarily by the Departments of Social Services, Health Services and Education under the overall direction of the Secretary of Health and Welfare. The Department of Social Services administers cash assistance payments to Indochinese refugees not eligible for AFDC or SSI/SSP. County welfare departments deliver in-home supportive services and other county social services to these clients. In addition, contracts for special social services and for training in English as a second language (ESL) are administered by the Department of Social Services.

In July 1979, the most recent month for which actual caseload information is available, 35,819 Indochinese refugees received cash assistance payments in California. This was an increase of 9,186, or 34 percent, over the caseload in October 1978, the first month such information was collected. The number of public assistance cases is expected to increase at a greater rate during 1980–81, as a result of higher national immigration quotas. The budget estimates that 81,500 refugees will receive cash assistance in July 1980, and that the average monthly caseload in 1980–81 will be 97,800.

Table 12 shows the Governor's proposed 1980–81 federal expenditure of $228.43 million for IRAP. The table distinguishes between the normal federal share of program expenditures and additional funding designated specifically for IRAP. This estimate will be revised during the budget process to reflect updated caseload projections.

Table 12
Indochinese Refugee Assistance Program (IRAP)
Estimated Federal Expenditures in California
(in millions)

	Estimated 1979–80			*Proposed 1980–81*		
Program Category	*Total*	*Normal Federal Share*	*IRAP Funding*	*Total*	*Normal Federal Share*	*IRAP Funding*
Local Assistance						
AFDC	$42.27	$21.13	$21.13	$81.77	$40.88	$40.89
SSI/SSP	12.57	7.00	5.57	26.85	14.48	12.37
Residual	31.48	—	31.48	62.00	—	62.00
Medical assistance	45.91	13.54	32.37	85.79	25.16	60.63
Administration						
AFDC	3.57	1.79	1.79	6.62	3.31	3.31
Residual	3.49	—	3.49	6.64	—	6.64
Medical Assistance	6.76	2.00	4.76	12.62	3.70	8.92
Social Services						
County Welfare Departments	4.37	—	4.37	8.46	—	8.46
Contracts	13.19	—	13.19	23.24	—	23.24
State support	1.08	—	1.08	1.96	—	1.97
Totals [a]	$164.69	$45.46	$119.23	$316.95	$87.53	$228.43

[a] Some columns and rows do not total due to rounding.

Positions Requested for Administration of the IRAP Program

We recommend that the Department of Social Services submit a plan to the Legislature prior to budget hearings, for coordinating the activities of the proposed IRAP positions.

The budget proposes 16.5 positions, limited to September 30, 1981 to administer an expanded federally funded IRAP program, at a cost of $515,276 in federal funds. Currently, the department has 7.5 authorized

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positions for administration of the IRAP program. In a letter dated January 18, 1980, submitted under the provisions of Section 28 of the 1979 Budget Act, the Director of Finance notified the Joint Legislative Budget Committee of her intention to establish the 16.5 new IRAP positions administratively during the current year in various bureaus within the Department of Social Services.

Of the 16.5 positions proposed in the budget and administratively established in the current year, 13.5 will manage contracts between the Department of Social Services and private agencies. The remaining three positions will augment existing staff for the administration of cash assistance programs delivered by county welfare departments. Table 13 details the assignments of the department's 24 IRAP positions.

Table 13
Proposed Organizational Location of Positions to Administer IRAP

	New Cash Assistance Staff	*New Contracts Management Staff*	*Existing IRAP Staff*	*Total Existing and Proposed Positions for IRAP*
Adult and family services division	0	3	6.5	9.5
Administration division				
Statistical Services Bureau	1.5	1.5	0	3
Contracts bureau	0	1	0	1
County fiscal administration bureau	0	5	0	5
Planning and review division				
Operations assessments and audits bureau	0	3	0	3
Welfare program operations division				
County adult program operations	1.5	0	1	2.5
Totals	3	13.5	7.5	24

Positions for Budget Year. The increase in IRAP funding will place new demands on the department in the budget year. For this reason, we recommend approval of the 16.5 limited-term positions. Our review indicates, however, that the department should identify more clearly how the activities of the new and existing positions will be centrally coordinated. It is our understanding that three deputy directors will have authority for various aspects of the assistance program, and three separate units will assign field representatives to the social services contractors. For these reasons, we recommend that the department submit a plan to the Legislature, prior to budget hearings, that (a) identifies the organizational unit within the department which will have overall responsibility for the program and (b) describes how IRAP activities will be coordinated.

Community Care Licensing

We withhold recommendation on the establishment of 55 new positions in the Community Care Licensing Division.

The budget proposes to establish 55 positions in the Community Care Licensing Division, at a General Fund cost of $1,399,108. Of these positions, 48 are requested for the Field Operations Branch and seven are requested for the Policy and Administrative Support and Client Protective Services Branches.

Request for Positions in the Field Operations Branch. The department's request for positions in the Field Operations Branch is based on (1) an increased number of facilities licensed by state staff and (2) implementation of procedures which increase the amount of time necessary to process licenses and maintain case files.

The request for these positions, as submitted to the Department of Finance by the Department of Social Services, was based on an unpublished workload study performed by the Department of Social Services. The workload standards established in this study subsequently were modified by the Department of Finance during its budget preparation process. Staff of the Departments of Finance and Social Services have been unable to clarify the analytical basis for the revised workload standard which was used as the basis for requesting 48 new positions.

Table 14 compares the annual number of facilities currently licensed per evaluator with the workload standards proposed by the Departments of Social Services and Finance.

Table 14
Alternative Annual Workload Standards for Facilities Evaluation and the Associated Need for New Staff
1980–81

	Day Care Facilities	*Residential Care Facilities*	*New Positions Required*
Current standard	180	90	8
Department of Social Services	117	68	109
Department of Finance	150	75	48

Current year proposal. The Department of Social Services advises that it has submitted a request to the Department of Finance to establish a portion of the positions in the Field Operations Branch during the current year. The Department of Social Services further advises that it intends to increase its request for field positions for this branch when its workload study is released.

We are unable to make a recommendation on the proposed 55 new positions for the Community Care Licensing Division because (1) we have no basis on which to evaluate the workload standard proposed by the Department of Finance, (2) the workload study conducted by the Department of Social Services has not yet been released, and (3) additional positions for the Client Protective Services and Policy and Administrative Support Branches cannot be evaluated separately from the staffing level authorized for the Field Operations Branch. Pending documentation of the workload standards forming the basis of this staffing request, we withhold recommendation on the 55 new positions.

AFDC CASH GRANTS—CONTROL SECTION 32.5

The Budget Bill does not contain an appropriation for the Aid to Families with Dependent Children (AFDC) program. This is because the Welfare and Institutions Code provides a continuous appropriation to finance cash grants to eligible children and their parents or guardians under the program. Control Section 32.5 of the Budget Bill, however, limits available funds to a specified amount and permits the Director of Finance to increase the expenditure limit in order to provide for unanticipated caseload growth or other changes which increase expenditures for aid payments.

Proposed Expenditures

Control Section 32.5 of the 1980–81 budget proposes to limit General Fund expenditures to $1,195,372,200. In addition to these funds, Item 314 provides $5,455,400 from the General Fund for local costs mandated by the State's Legislative and Executive branches. Thus, the total General Fund cost for the AFDC grants in fiscal year 1980–81 is proposed at $1,200,827,600. This is an increase of $208,736,000, or 21.0 percent, over estimated 1979–80 expenditures.

Total expenditures from all funds for cash grants paid through Control Section 32.5 are proposed at $2,585,469,700, which is an increase of $479,-388,000, or 22.8 percent, over estimated current-year expenditures. In addition to these funds, the budget includes federal funds of $62,005,900 in Item 311 for cash grants to Indochinese refugees who do not meet the eligibility requirements for existing welfare programs, but who will receive a grant amount equal to the AFDC payment level as the result of federal requirements.

Total expenditures from Control Section 32.5 and Items 311 and 314 are proposed at $2,647,475,600 in 1980–81, which is an increase of $509,910,900, or 23.9 percent, above the estimated current-year expenditures. Table 15 shows the total estimated expenditures for AFDC grants in 1979–80 and 1980–81.

Table 15

Total Expenditures for AFDC Grants

Funding	*Estimated 1979–80*	*Proposed 1980–81* *Amount*	*Proposed 1980–81* *Percent Increase*
Control Section 32.5			
Federal	$1,035,120,200	$1,289,749,100	24.6%
State	986,941,900	1,195,372,200	21.1
Prior law share	(690,121,300)	(837,511,100)	(21.4)
Fiscal relief	(296,820,600)	(357,861,100)	(20.6)
County	84,019,600	100,348,400	19.4
Subtotals	$2,106,081,700	$2,585,469,700	22.8
Item 314, Local Mandates			
Federal	—	—	—
State	$5,149,700	$5,455,400	5.9
County	−5,149,700	−5,455,400	—
Subtotals	—	—	—
Item 311, Indochinese Refugees			
Federal	$31,483,000	$62,005,900	97.0
State	—	—	—
County	—	—	—
Subtotals	$31,483,000	$62,005,900	97.0%
Totals	$2,137,564,700	$2,647,475,600	23.9%

Expenditures By Category of Recipient

Grant payments limited by Control Section 32.5 are provided to five categories of recipients, as shown in Table 16. Total payments for the family group component—typically a mother with one or more children—are proposed at $2,250.0 million for 1980–81, an increase of 22.5 percent over the current year. In addition, the budget proposes an expenditure of $264.2 million from all funds for cash grants to unemployed parents with dependent children. This is an increase of 27.6 percent over the current year. Finally, the budget proposes an expenditure of $188.2 million in 1980–81 for grants to children receiving foster care in boarding homes and institutions, which is an increase of 22.3 percent over the current year.

Proposed General Fund Budget Increases

Table 17 shows the changes in General Fund expenditures for the AFDC program proposed in the 1980–81 Governor's Budget. General Fund expenditures in the budget year will increase by $208,430,300 over estimated expenditures in the current year. This amount consists of $225,048,400 in increased expenditures and $16,618,100 in offsetting savings.

Most of the proposed increase—83 percent, or $172,146,200—is to provide a 14.65 percent cost-of-living increase for AFDC grants as required by statutes. Other significant increases include $36,418,400 due to a projected increase in basic caseload resulting from an economic recession; $1,860,100 due to a change in the method by which the costs for AFDC Foster Care program are claimed; and $2,646,300 due to several court cases.

AFDC Caseload

The budget projects that the AFDC caseload will increase by 80,584 persons, or 5.8 percent, in 1980–81 as shown in Table 18. This increase is significantly larger than increases in previous years, which have ranged between 1 percent and 2 percent. The increase is expected to result from the economic recession projected for 1980. Such a recession would increase unemployment and therefore expand the number of individuals receiving assistance under this program. The department indicates that these estimates are subject to change during the May revision, based on additional caseload data for the current fiscal year.

Cost-of Living Increases

State law requires that recipients of assistance under the AFDC-Family Group and Unemployed programs receive an annual cost-of-living increase on their grants effective July 1 of each year. The cost-of-living adjustment is based on the change in the consumer price indices for Los Angeles and San Francisco during the preceding calendar year. (The increase is measured from December to December.) During the current year (1979–80), cash grant amounts paid to these individuals were increased by 15.16 percent. This increase compensated for the increase in the consumer price indices during a two-year period (December 1976–December 1978) because no cost-of-living adjustment was provided in 1978–79.

The Governor's Budget proposes a 14.65 percent cost-of-living increase for AFDC grants for 1980–81. Because actual Consumer Price Index (CPI) data are not currently available for the entire calendar year 1979, this estimate is subject to change as part of the May revision of expenditures.

Table 16
Control Section 32.5
Expenditures for AFDC Grants by Category of Recipient
(in millions)

	Estimated 1979–80				*Proposed 1980–81*							
					Amount				*Percent Change*			
Recipient	*Total*	*Federal*	*State*	*County*	*Total*	*Federal*	*State*	*County*	*Total*	*Federal*	*State*	*County*
Family group	$1,837.3	$926.6	$812.1	$98.6	$2,250.0	$1,141.9	$988.1	$120.0	22.5%	23.2%	21.7%	21.7%
Unemployed parent	207.0	101.5	94.1	11.4	264.2	137.8	112.7	13.6	27.6	35.8	19.8	19.3
Foster care	153.9	38.6	109.6	5.8	188.2	49.0	132.2	7.0	22.3	26.9	20.6	20.7
Aid for adoption of children	2.7	—	2.7	—	2.9	—	2.9	—	7.4	—	7.4	—
Child support incentive payments to counties	—	14.0	14.0	−28.1	—	17.7	16.2	−33.9	—	26.4	15.7	20.6
Child support collections from absent parents	−94.9	−45.6	−45.6	−3.7	−119.8	−56.7	−56.8	−6.4	26.2	24.3	24.6	73.0
Totals	$2,106.0	$1,035.1	$986.9	$84.0	$2,585.5	$1,289.7	$1,195.3	$100.3	22.8%	24.6%	21.1%	19.4%

Table 17
Control Section 32.5
Proposed General Fund Budget Increases for AFDC Grants
1980–81

	Cost	*Total*
1979–80 Current Year Revised		$986,941,900
A. Baseline Adjustments		
1. Basic caseload increase		$36,418,400
2. Cost-of-living increase		
a. 1979–80 cost-of-living increase adjusted for caseload growth	$7,957,800	
b. 1980–81 cost-of-living increase	172,146,200	
Subtotals		$180,104,000
3. Court cases		
a. Garcia v. Swoap	2,349,000	
b. Youakim v. Miller	166,700	
c. Crosby v. Califano	22,600	
d. Castro v. Ventura	108,000	
Subtotals		$2,646,300
4. Regulations		
a. Overpayment/underpayment	−27,700	
b. Federal budgeting	845,900	
c. Elimination of passing grade	993,600	
d. Special needs	24,600	
e. AFDC-BHI supplement to SSI/SSP child	6,900	
f. Good Cause Regulations	9,800	
Subtotals		$1,853,100
5. AFDC—BHI direct cost claiming method		$1,860,100
6. Legislation		
a. Chapter 55, Statutes of 1978—AFDC-BHI 18–20	−9,600	
b. Chapter 1170 Statutes of 1979—overpayment recoupment	−441,300	
Subtotals		$−450,900
7. Reduced grant costs due to minimum wage increases		$−4,876,500
8. Effect of increased child support collections		$−11,290,700
9. Increased costs for child support incentive payments		$2,166,500
B. Total Budget Increase		($208,430,300)
C. Proposed 1980–81 expenditures		$1,195,372,200

Table 18
AFDC Average Monthly Persons Receiving Assistance

Program	*Estimated 1979–80*	*Estimated 1980–81*	*Percent Change*
AFDC family group	1,202,933	1,265,350	5.2%
AFDC unemployed	165,942	181,658	9.5
AFDC foster care	27,717	30,132	8.7
AFDC aid for adoption of children	1,798	1,834	2.0
Totals	1,398,390	1,478,974	5.8%

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 19 shows the proposed AFDC payment standards for selected family sizes for 1980–81. For example, if a 14.65 percent cost-of-living adjustment is provided, the grant for a family of two will increase by $48 from $331 in 1979–80 to $379 in 1980–81. The grant for a family of three will increase by $60, from $410 to $470.

Table 19
Maximum AFDC Grant Amounts for 1980–81
Assumes a Cost-of-Living Increase of 14.65 Percent

Family Size	*Estimated 1979–80*	*Proposed 1980–81*	*Change Amount*	*Change Percent*[a]
1	$201	$231	$30	14.92%
2	331	379	48	14.50
3	410	470	60	14.63
4	487	559	72	14.78

[a] Percentage changes does not equal 14.65 percent because the Welfare and Institutions Code requires that dollar amounts be rounded.

Historically, AFDC grant levels for children residing in foster care have been established by county boards of supervisors. On occasion, the counties adjusted the grant amounts without taking changes in the Consumer Price Index into consideration. As a resultof AB 8, AFDC foster care grants will be increased annually by the same percentage increase applied to grants for the AFDC-Family Group and Unemployed Programs. Counties may increase the foster care grants by more than this percentage, but they will have to fund the full cost of the larger increase.

Table 20 shows the total costs from all funds to provide a 14.65 percent cost-of-living increase for AFDC grants. In 1980–81 these costs are estimated at $368,583,500, of which the federal government pays $176,704,900, the state pays $172,146,200, and the counties pay $19,732,400.

Table 20
Cost-of-Living Expenditures for AFDC Grants
1980–81

Cost-of-Living Increases	*Total*	*Federal*	*State*	*County*
Family group and unemployed	$345,021,100	$170,226,900	$155,916,000	$18,878,200
Foster care	23,562,400	6,478,000	16,230,200	854,200
Totals	$368,583,500	$176,704,900	$172,146,200	$19,732,400

Cost-of-Living Increases for AFDC Recipients

We recommend enactment of legislation which would provide for the cost-of-living adjustment to AFDC grants through the annual budget process rather than automatically through statute.

Background. Each month recipients of assistance under the Aid to Families with Dependent Children (AFDC) program receive a payment consisting of two components: (1) the basic grant and (2) the cost-of-living adjustment. The basic grant represents the cost of obtaining necessary living needs such as food, clothing, shelter and utilities. State law requires that the basic grant amount be adjusted annually to reflect changes in the cost-of-living. The purpose of the cost-of-living adjustment is to help the purchasing power of welfare recipient grants keep pace with the rising costs of food, shelter, transportation and other necessities of life.

Table 21 shows the increase in the AFDC grant for a family of three from 1972–73 through 1980–81. During this nine-year period, the grant amount has increased at an average annual rate of 8.1 percent.

Table 21
AFDC Grant Increases for a Family of Three
1972–73 to 1980–81

	Grant Amount	*Percent Increase*
1972–73	$237	0.9%
1973–74	243	2.5
1974–75	262	7.8
1975–76	293	11.8
1976–77		
July-December 1976	319	8.9
January-June 1977	338	6.0 [a]
1977–78	356	5.3
1978–79	356	— [b]
1979–80	410	15.2
1980–81 (Estimated)	470	14.6%

[a] Grant amounts increased by 6 percent effective January 1, 1977, as a result of Chapter 348, Statutes of 1976 (AB 2601).
[b] Cost-of-living increase suspended for one year.

Our analysis indicates that the current statutory requirement to provide an automatic cost-of-living increase to AFDC recipients should be modified.

Lack of Legislative Flexibility in Setting Spending Priorities. Because there is a statutory requirement to provide an annual cost-of-living adjustment to various cash assistance payments, the Legislature's flexibility is limited in setting spending priorities for the state as a whole. Specifically, increased expenditures of approximately $511 million from the General Fund in 1980–81 ($172.1 million for the AFDC program and $338.9 million for the SSI/SSP program) will not be subject to the Legislature's control through the budget process because these increases are required by statute.

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 22 shows that much of the growth in the AFDC and SSI/SSP programs is currently outside the control of the Legislature. The table shows that state expenditures for the AFDC program for 1980–81 are proposed to increase by $208.5 million over estimated expenditures for 1979–80. Of this amount, $172.1 million, or 83 percent, is due to the cost-of-living increase and the remaining 17 percent is due to caseload and other adjustments. In the SSI/SSP program, state expenditures are estimated to increase by $222.4 million over estimated 1979–80 expenditures. Cost-of-living adjustments, however, will total $338.9 million. (The cost-of-living increase of $338.9 million is offset by (a) increases in recipient unearned income—for example, Social Security benefits—which reduces grant expenditures and (b) other adjustments totaling $116.5 million.)

Table 22
State Expenditures for AFDC and SSI/SSP Grants
(in millions)

Program	*Estimated 1979–80*	*Proposed 1980–81*	*Proposed Amount of Increase*	*Expenditures for Cost-of-Living Increase*	
				Amount	*Percent*
AFDC	$986.9	$1,195.4	$208.5	($172.1)	82.5%
SSI/SSP	1,087.9	1,310.3	222.4	(338.9)	152.4

While the Legislature can limit expenditures under Control Section 32.5 to less than the amount required to provide for the statutory cost-of-living increase (as it did in the 1979 Budget Act) this does not change the state's obligation to provide these increases. Consequently, such action serves to increase the likelihood that a deficiency will arise requiring further executive or legislative action.

Effect on County Appropriations Under Article XIIIB of the Constitution. It is possible that in the future an automatic cost-of-living increase in the AFDC program could require counties to curtail appropriations in other areas due to the provisions of Article XIIIB of the state constitution (added by Proposition 4 on the November 1979 ballot).

Article XIIIB limits the amount of funds that the state and local governments may appropriate from the proceeds of taxes. The Legislative Counsel has issued an opinion holding that appropriations for the AFDC program probably would be treated as "proceeds of taxes" at the local level and thus would count against the counties' appropriation limits.

If, in the future, costs for this program grow at rates which are higher than the rates used to adjust the appropriations limit for local governments, counties might be forced to curtail the growth of other types of appropriations.

(More information on the effects of Article XIIIB may be found in our report entitled "An Analysis of Proposition 4, the Gann 'Spirit of 13' Initiative," (December 1979).)

For illustration purposes, Table 23 compares the percentage increase in appropriations allowed under Article XIIIB for 1980–81 with the proposed percentage increase in the nonfederal share of costs for the AFDC program. Assuming that the population of a county increases by 1.7 percent and per capita income increases by 10.5 percent, county appropriations could increase by 12.4 percent in 1980–81 over its 1979–80 appropriation limit. However, the county would have to increase its appropriation for the AFDC program by 21 percent, assuming a 14.65 percent cost-of-living adjustment and a 5.8 percent caseload increase. As a result, the county would have to hold the growth in other expenditures below 12.4 percent if it were already at its appropriation limit, in order to comply with the limits imposed by Article XIIIB.

Table 23
Comparison of the Appropriation Adjustments Under Article XIIIB and Growth in AFDC Appropriations

Article XIIIB [a]	*Percent Change for 1980–81*
Cost of living:	
U.S. CPI	12.8%
State per capita personal income	10.5
Population	1.7
Percentage Limit for Appropriations [b]	12.4% [c]
Growth in AFDC Appropriation	*21.0%*

[a] Contained in our report "An Analysis of Proposition 4", issued in December 1979.
[b] Combination of the percentage change in state per capita personal income and population. State per capita personal income was applied instead of the U.S. CPI because Article XIIIB requires that the lesser of these two factors be used when calculating the appropriation limit.
[c] Percentage increase in State per capita personal income (10.5 percent) and population (1.7 percent) do not add to appropriation limit (12.4 percent) due to compounding.

Problems in Measuring Inflation The most popular way of measuring inflation is to use the Consumer Price Index (CPI). The CPI is a statistical device which records changes over time in the cost of a defined "market basket" of goods and services. The market basket includes food, housing, clothing, transportation, medical care, entertainment and other categories.

DEPARTMENT OF SOCIAL SERVICES—Continued

The Bureau of Labor Statistics has constructed two CPI "market baskets." One market basket is based on the consumption behavior of all urban area residents and represents about 80 percent of the nation's households. The other is based on the purchasing habits of only wage and clerical workers in urban areas and represents only 40 to 50 percent of all households.

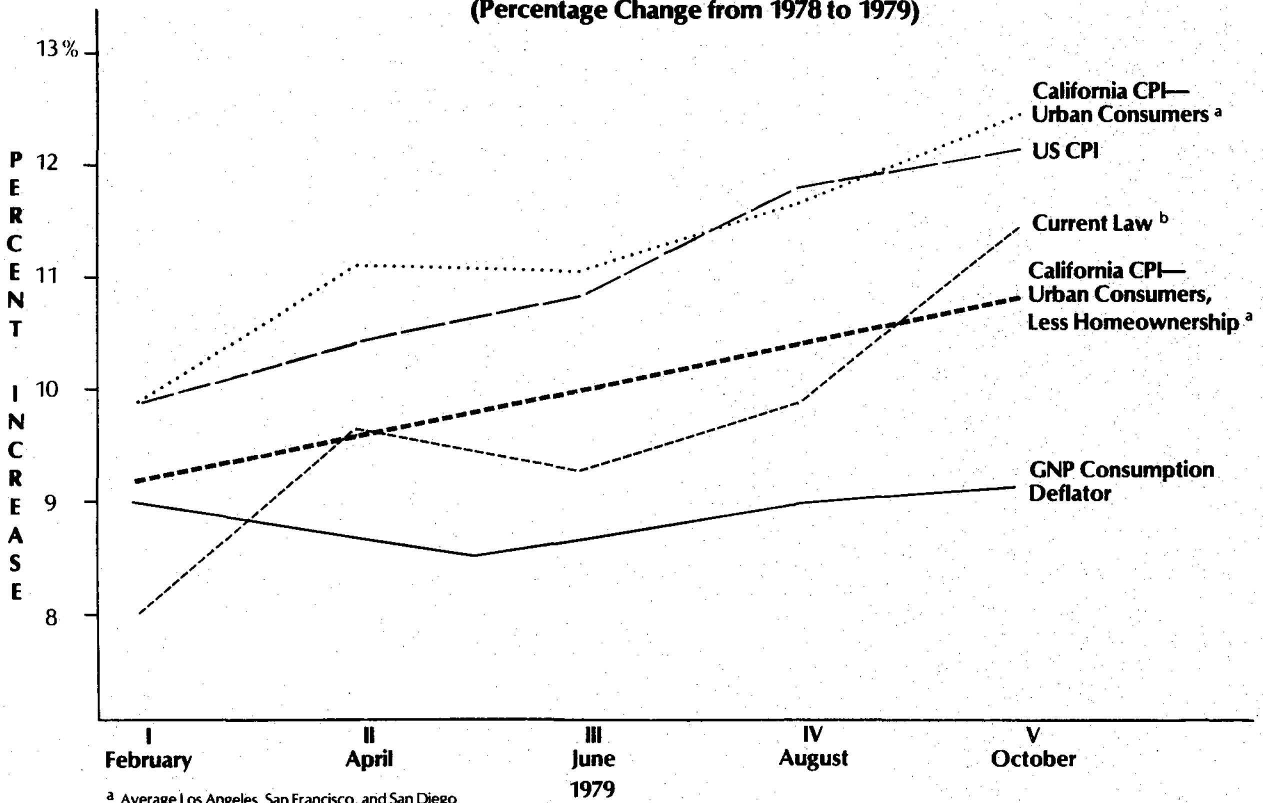
Our analysis suggests that there are several problems with using these indices for determining the impact of inflation on welfare recipients. First, there is currently no specific index which measures the impact of inflation on the goods and services typically purchased by welfare recipients. As a substitute, existing law uses the average change in the "market basket" of goods and services purchased by urban wage and clerical workers in the San Francisco and Los Angeles areas. However, welfare recipients do not have the same purchasing patterns or face the same price pressures as wage earners and clerical consumers. For example, the index includes the impact of increased costs for items which many AFDC recipients do not purchase. Specifically, almost one-quarter of the total expenditures measured by the index is for homeownership, although most AFDC recipients are renters and do not purchase homes.

Second, the CPI can overstate the rate of inflation faced by the average consumer because it does not measure changes in consumption patterns which occur during periods of high inflation. This is a particularly serious problem during periods of rapid inflation when consumers tend to shift away from purchasing goods exhibiting the largest price increases to goods that are not going up in price to the same extent. For example, when gasoline prices increase and consumers cut back on their use of automobiles, the index does not adjust for this change.

There are several alternatives to using a Consumer Price Index to measure "inflation." One alternative is the Gross National Product (GNP) Consumption Deflator published by the U.S. Department of Commerce. This index more nearly reflects the actual increases in prices paid by the average consumer because it allows for changes in consumption patterns, and treats housing costs in a way which avoids the bias of only counting new home purchases. In addition to the GNP consumption deflator, it is possible to adjust one of the existing indices to exclude an item (such as housing) which does not measure increases borne by the consumer.

Third, Chart 6 shows that the rate of "inflation" varies substantially depending on which index is used to measure the change in prices. This chart compares the quarterly percentage change in prices between 1978 and 1979 and shows that as of October 1979:

Chart 6
Alternative Methods of Measuring the Rate of Inflation
(Percentage Change from 1978 to 1979)



[a] Average Los Angeles, San Francisco, and San Diego
[b] California CPI—Wage Earners and Clerical Workers, Average Los Angeles and San Francisco

DEPARTMENT OF SOCIAL SERVICES—Continued

1. The index with the highest rate of increase was the California CPI for urban consumers which increased by 12.5 percent.
2. If homeownership is excluded from the California CPI for urban consumers, prices rose 10.8 percent, instead of 12.5 percent.
3. The GNP consumption deflator had the lowest rate of increase at 9.1 percent.
4. The California CPI for wage earners and clerical workers for Los Angeles and San Francisco (current law) increased by 11.3 percent.

Table 24 shows the General Fund costs which would result from using various measures of inflation to adjust cash grant levels. In constructing the table, we have measured the change in prices from October 1978 to October 1979, the most recent period for which comparable data are available. Consequently, the rates of inflation and General Fund costs are different from those shown in the Governor's Budget which it uses estimates of change from December 1978 to December 1979.

Table 24
General Fund Expenditures for AFDC Cost-of-Living Increases Using Various Consumer Price Indices and the GNP Consumption Deflator
Change from October 1978 to October 1979

Alternative Measures of Inflation	*Percent Increase*	*General Fund (in millions)*
California CPI—Urban Consumers [a]	12.5%	$147.8
U.S. CPI	12.2	144.3
Current Law [b]	11.3	133.3
California CPI—Urban consumers (less homeownership) [a]	10.8	127.2
GNP Consumption Deflator	9.1	107.8

[a] Average Los Angeles, San Francisco, San Diego
[b] California CPI wage earners and clerical workers. Average for Los Angeles and San Francisco

Alternative Approach to Providing Cost-of-Living Increases. Our analysis suggests that the statutory requirements to provide an annual cost-of-living adjustment limits the Legislature's ability to set spending priorities. Moreover, if funds for the AFDC program are subject to limitations at the county level, rapid growth in this program could automatically require counties to curtail the growth in spending in other priority areas.

Because of these factors, we recommend that legislation be enacted to allow the Legislature to grant cost-of-living increases through the annual budget process rather than automatically through statute. *We are not recommending that welfare recipients be denied cost-of-living increases.* Rather, we are recommending that the Legislature give itself more flexibility in setting spending priorities for the state by considering cost-of-living adjustments in the budget process.

The Legislature may wish to use one of several cost-of-living indices when deciding how much to adjust cash grant levels. We recommend that the Legislature use an index which excludes the impact of increased costs for items which AFDC recipients generally do not purchase (for example, homeownership). Alternatively, the Legislature may wish to use one of the cost-of-living factors provided for under Article XIIIB (the U.S. CPI or state per capita personal income). While these measures may not directly reflect the impact of increased costs of goods and services on welfare recipients in California, they would allow for program growth within the limits set by Article XIIIB.

Department of Social Services

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND AND DISABLED

Item 310 from the General Fund — Budget p. HW 149

Requested 1980–81	$1,310,291,600
Estimated 1979–80	1,087,876,000
Actual 1978–79	891,020,326
Requested increase $222,415,600 (+20.4 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. SSI/SSP Cost-of-Living. Recommend enactment of legislation which would provide for the cost-of-living adjustment to SSI/SSP grants through the annual budget process rather than automatically through statute.	892

GENERAL PROGRAM STATEMENT

The Supplemental Security Income/State Supplementary Payment (SSI/SSP) program is a federally-administered program under which eligible aged, blind and disabled persons receive financial assistance. It be-

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND AND DISABLED—Continued

gan on January 1, 1974, when the federal Social Security Administration assumed responsibility for administration of the cash grant program which provides assistance to California's eligible aged, blind and disabled. Prior to that, California's 58 county welfare departments administered a joint federal-state-county program which provided cash assistance to these recipients. The federal and state governments share the grant costs of the SSI/SSP program. The federal government pays the cost of the SSI grant and the state pays the cost of the SSP grant.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $1,310,291,600 from the General Fund for the state share of the SSI/SSP program in 1980–81. This is an increase of $222,415,600, or 20.4 percent, over estimated current year expenditures. The appropriation includes $234,207,300 for the county share of costs which the state assumed pursuant to Chapter 282, Statutes of 1979 (AB 8). Federal expenditures of $792,985,100 are proposed for 1980–81, an increase of $90,908,600, or 12.9 percent, over estimated current year expenditures.

Total expenditures of $2,103,276,700 are proposed for the SSI/SSP program for 1980–81, as shown in Table 1. This is an increase of $313,324,200, or 17.5 percent, over estimated current year expenditures.

Table 1
Total Expenditures for the SSI/SSP Program
1979–80 and 1980–81

	Estimated 1979–80	*Proposed 1980–81*	*Change From 1979–80 Amount*	*Percent*
Federal	$702,076,500	$792,985,100	$90,908,600	12.9%
State	1,087,876,000	1,310,291,600	222,415,600	20.4
Prior law share	(880,979,100)	(1,076,084,300)	(195,105,200)	22.1
Fiscal relief	(206,896,900)	(234,207,300)	(27,310,400)	13.2
County	—	—	—	—
Totals	$1,789,952,500	$2,103,276,700	$313,324,200	17.5%

Expenditures by Category of Recipients

Grant payments in the SSI/SSP program are made to three general categories of recipients as shown in Table 2. Total grant expenditures to aged recipients are proposed at $760,977,200, an increase of 17.6 percent above estimated current year expenditures. In addition, the budget proposes to spend $1,279,728,500 from all funds for cash grants for disabled recipients. This is an increase of $190,810,300, or 17.5 percent, over the current year. The budget also proposes to spend $62,571,000 for cash grants for blind recipients, an increase of 16.6 percent over the current year.

Proposed General Fund Budget Increases

Table 3 shows the proposed changes in the General Fund expenditures for the SSP program. The General Fund increase of $222,415,600 in 1980–81 consists of $356,505,300 in increased costs and $134,089,700 in offsetting

Table 2
Expenditures for SSI/SSP Grants by Category of Recipient
1979–80 and 1980–81

	Estimated 1979–80			*Proposed 1980–81*			*Percent Change From 1979–80*		
Recipient	*Total*	*Federal*	*State*	*Total*	*Federal*	*State*	*Total*	*Federal*	*State*
Aged	$647,352,200	$191,118,400	$456,233,800	$760,977,200	$212,744,200	$548,233,000	17.6%	11.3%	20.2%
Blind	53,682,100	19,279,600	34,402,500	62,571,000	21,542,300	41,028,700	16.6	11.7	19.3
Disabled	1,088,918,200	491,678,500	597,239,700	1,279,728,500	558,698,600	721,029,900	17.5	13.6	20.7
Totals	$1,789,952,500	$702,076,500	$1,087,876,000	$2,103,276,700	$792,985,100	$1,310,291,600	17.5%	12.9%	20.4%

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND AND DISABLED—Continued

savings. The major cost increases include (a) $262,690,500 to provide a cost-of-living increase for the SSP grant based on a 14.65 percent change in the Consumer Price Index and (b) $76,200,100 to pass on the federal cost-of-living increase for the SSI grant. These costs are offset by an increase of $133,680,700 in the unearned income of SSI/SSP recipients which reduces the total amount for grant payments by the same amount.

Table 3
Proposed General Fund Budget Changes
1980–81

	Cost	*Total*
1979–80 Current Year Revised		$1,087,876,000
A. Baseline adjustments		
1. Basic caseload increase		$12,491,600
2. Cost-of-living increase		$344,013,700
a. 1979–80 increase adjusted for caseload growth	$5,123,100	
b. 1980–81 increase on the SSP grant	$262,690,500	
c. 1980–81 cost to the state of passing on the federal SSI cost-of-living increase	$76,200,100	
3. Nonrecurring cost		$–409,000
4. Reduced grant costs due to increased recipient unearned income		$–133,680,700
a. 1979–80 increase adjusted for caseload	$–1,359,700	
b. 1980–81 increase	$–132,321,000	
B. Total Budget Increase		($222,415,600)
C. Proposed General Fund Expenditures		$1,310,291,600

Caseload

The Budget projects that the caseload for the SSI/SSP program will increase by 13,776 persons, or 2.0 percent, as shown in Table 4. These projections are subject to change during the May revision of expenditures.

Table 4
SSI/SSP Average Monthly Persons Receiving Assistance
1979–80 and 1980–81

			Change From 1979–80	
Program	*Estimated 1979–80*	*Proposed 1980–81*	*Persons*	*Percent*
Aged	317,771	322,500	4,729	1.5%
Blind	17,229	17,358	129	0.7%
Disabled	366,924	375,842	8,918	2.4%
Totals	701,924	715,700	13,776	2.0%

Cost-of-Living Increase

Current law requires cash grants for SSI/SSP recipients to be increased annually to compensate for increases in the cost-of-living. The federal government provides a cost-of-living increase for the SSI grant based on the change in the U.S. Consumer Price Index (CPI). In addition, the state provides a cost-of-living adjustment for the SSP grant, based on the change in the consumer price indices for Los Angeles and San Francisco.

The federal government is proposing to increase the SSI grant by 13.3 percent for 1980–81. The SSP grant increase will be based on a 14.65

percent change in the Consumer Price Index. The SSP grant will actually increase more than 14.65 percent over the current-year level because of the method prescribed by state law for calculating cost-of-living increases.

Table 5 shows the maximum SSI/SSP grant payments for selected recipient categories for 1979–80 and 1980–81. It is estimated that the grant for an aged or disabled individual will increase by $60 from $356 in the current year to $416 in the budget year. During the same period, the grant for an aged or disabled couple will increase by $106 from $660 to $766.

Table 5
Maximum SSI/SSP Grant Levels
1979–80 and 1980–81

			Change From 1979–80	
Aged/Disabled Individual	*Estimated 1979–80*	*Proposed 1980–81*	*Amount*	*Percent*
Totals	$356.00	$416.00	$60.00	16.9%
SSI	(208.20)	(235.90)	(27.70)	13.3
SSP	(147.80)	(180.10)	(32.30)	21.9
Aged/Disabled Couple				
Totals	660.00	766.00	106.00	16.1
SSI	(312.30)	(353.90)	(41.60)	13.3
SSP	(347.70)	(412.10)	(64.40)	18.5
Blind Individual				
Totals	399.00	465.00	66.00	16.5
SSI	(208.20)	(235.90)	(27.70)	13.3
SSP	(190.80)	(229.10)	(38.30)	20.1
Blind Couple				
Totals	776.00	894.00	118.00	15.2
SSI	(312.30)	(353.90)	(41.60)	13.3
SSP	(463.70)	(540.10)	(76.40)	16.5%

Table 6 shows the total expenditures from all funds for the SSI/SSP cost-of-living adjustment for 1980–81. Total expenditures are estimated at $486,419,400, of which the federal government will pay $147,528,800 and the state will pay $338,890,600. The state costs consist of two components: (1) the increased cost for the SSP grant ($262,690,500) and (2) the cost of passing on the federal cost-of-living increase on the SSI grant ($76,200,100). (Current law requires the state to pass on federal cost-of-living increases on the SSI grant to all SSI/SSP recipients. Under federal requirements, recipient countable income—for example, social security benefits—is applied first to reduce the SSI portion of the grant. As a result, the state pays the full cost of providing the SSI increase to the remaining SSP recipients who have income above the SSI grant level and therefore do not qualify for SSI benefits.)

Table 6
Cost-of-Living Expenditures for SSI/SSP Grants
1980–81

SSI/SSP Program	*Cost*
Federal Funds:	
SSI Cost-of-Living	$147,528,800
General Fund:	$338,890,600
SSP cost-of-living increase	(262,690,500)
Cost for passing on the federal cost-of-living increase	(76,200,100)
Total, SSI/SSP	$486,419,400

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND AND DISABLED—Continued

Federal Revenue Sharing Funds

Budget Bill language in Item 485 specifies that $276,200,000 shall be appropriated from the Federal Revenue Sharing Fund to the General Fund to finance part of the state's cost of the SSP program. Language in Item 310 (the SSP appropriation) specifies that the revenue sharing funds will be expended prior to the expenditure of the remaining $1,034,091,600 from the General Fund, appropriated in that item.

Cost-of-Living Increases for SSI/SSP Recipients

We recommend enactment of legislation which would provide for the cost-of-living adjustment to SSI/SSP grants through the annual budget process rather than automatically through statute.

Background. Each month, recipients of assistance receive from the federal government a single monthly check covering the federal grant payment for SSI and the state grant payment for SSP. Both the SSI and SSP grants consist of a basic grant amount and a statutorily set cost-of-living factor which increases the basic grant annually. The basic grant represents the cost of obtaining necessary living needs, such as food, clothing, shelter and utilities. The purpose of the cost-of-living adjustment is to help the purchasing power of grants to SSI/SSP recipients keep pace with the rising costs of food, shelter, transportation and other necessities of life.

The cost-of-living increase on the federal SSI grant is based on the percentage change in the U.S. Consumer Price Index. The cost-of-living increase on the state SSP grant is based on the average percentage change in the separate consumer price indices for Los Angeles and San Francisco.

Table 7 shows the increase in SSI/SSP grants for an aged or disabled individual from the beginning of this program in January 1974 through 1980–81. During this seven-year period, the SSI/SSP grant increased annually at a rate of 8.6 percent.

Table 7
SSI/SSP Grant Increases for an Aged Individual
January 1974 to 1980–81

	Total SSI/SSP Grant	*Percent Increase*
January–June 1974	$235.00	—
1974–75	235.00	—
1975–76	259.00	10.2%
1976–77	276.00	6.6
1977–78	296.00	7.2
1978–79	307.60	3.9 [a]
1979–80	356.00	15.7
1980–81	416.00	16.9

[a] Reflects the effect of the SSI cost-of-living increase for 1978–79. The SSP cost-of-living increase was suspended except for July and August 1978 when the total grant payment for an aged individual was $322.

The budget estimates that under current law, the SSP grant will be increased on the basis of a 14.65 percent change in the consumer price indices for Los Angeles and San Francisco and the SSI grant will be increased by 13.3 percent. These estimates are subject to change during the May revision of expenditures when actual Consumer Price Index data will be available.

Our analysis indicates that the current statutory requirement to provide an automatic cost-of-living increase to SSI/SSP recipients should be modified.

Lack of Legislative Flexibility in Setting Spending Priorities. Because there is a statutory requirement to provide an annual cost-of-living adjustment to various cash assistance payments, the Legislature's flexibility is limited in setting spending priorities for the state as a whole. Specifically, increased expenditures of approximately $511 million from the General Fund in 1980–81 ($172.1 million for the AFDC program and $338.9 million for the SSI/SSP program) will not be subject to the Legislature's control through the budget process because these increases are required by statute.

Table 8 shows that much of the growth in the AFDC and SSI/SSP programs is currently outside the control of the Legislature. The table shows that state expenditures for the AFDC program for 1980–81 are proposed to increase by $208.5 million over estimated expenditures for 1979–80. Of this amount, $172.1 million, or 83 percent, is due to the cost-of-living increase and the remaining 17 percent is due to caseload and other adjustments. In the SSI/SSP program, state expenditures are estimated to increase by $222.4 million over estimated 1979–80 expenditures. Cost-of-living adjustments, however, will total $338.9 million. (The cost-of-living increase of $338.9 million is offset by (a) increases in recipient unearned income—for example, Social Security benefits—which reduces grant expenditures and (b) other adjustments totaling $116.5 million.)

Table 8
State Expenditures for AFDC and SSI/SSP Grants
(in millions)

Program	Estimated 1979–80	Proposed 1980–81	Proposed Amount of Increase	Expenditures for Cost-of-Living Increase: Amount	Expenditures for Cost-of-Living Increase: Percent
AFDC	$986.9	$1,195.4	$208.5	($172.1)	82.5%
SSI/SSP	1,087.9	1,310.3	222.4	(338.9)	152.4

Effect on State Appropriations Under Article XIIIB of the Constitution. It is possible that in the future an automatic cost-of-living increase in the SSP program could require the state to curtail appropriations in other areas due to the provisions of Article XIIIB of the state constitution (added by Proposition 4 on the November 1979 ballot).

Article XIIIB limits the amount of funds that the state and local governments may appropriate from the proceeds of taxes. The Legislative Counsel has issued an opinion holding that appropriations for the SSP program count toward the state's appropriation limit.

If, in the future, costs for this program grow at rates which are higher than the rates used to adjust the appropriations limit, the state might be forced to curtail the growth of other types of appropriations.

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND AND DISABLED—Continued

(More information on the effects of Article XIIIB may be found in our report entitled "An Analysis of Proposition 4, the Gann 'Spirit of 13' Initiative," (December 1979).)

For illustration purposes, Table 9 compares the percentage increase in appropriations allowed under Article XIIIB for 1980–81, with the proposed percentage increase in the state share of costs for the SSP program. Assuming that the population of the state increases by 1.7 percent and per capita income increases by 10.5 percent, state appropriations could grow by 12.4 percent in 1980–81 over the 1979–80 appropriation level. However, because of the statutory cost-of-living increase, the funds appropriated by the state for the SSP program must increase by 20.4 percent. As a result, the state would have to hold the growth in other expenditures below 12.4 percent if it were already at its appropriation limit, in order to comply with the limits imposed by Article XIIIB.

Table 9
Comparison of the Appropriation Adjustment Under Article XIIIB and Growth in SSP Appropriations
1980–81

Article XIIIB [a]	*Percent Change for 1980–81*
Cost of living:	
U.S. CPI	12.8%
or	
State per capita personal income	10.5
Population	1.7
Percentage limit for appropriation [b]	12.4 [c]
Growth in SSP appropriation	*20.4%*

[a] Estimates contained in our report "Analysis of Proposition 4", issued December 1979.
[b] Combination of the percentage change in state per capita personal income and population. State per capita personal income was applied instead of U.S. CPI because Article XIIIB requires that the lesser of these two factors be used when calculating th appropriation limit.
[c] Percentage increase in state per capita personal income (10.5 percent) and population (1.7 percent) do not add to the appropriation limit (12.4 percent) due to compounding.

Problems with the Current Formula Used to Calculate Cost-of-Living Grant Increases. There are several problems with the current method used to calculate cost-of-living adjustments for SSI/SSP recipients.

1. *SSI/SSP Cost-of-Living Adjustment Does not Reflect the Change in the Consumer Price Index.* Under current law, the cost-of-living increase for the SSP grant is obtained by applying the change in the Consumer Price Index against inflated base amounts which are set in statute. As a result, the total SSI/SSP payment and the SSP portion of the grant increase annually at a rate greater than the rate of inflation as measured by the Consumer Price Index. This is illustrated in Table 10, which compares the change in the SSI/SSP grant for an aged person for 1980–81 with the changes in the consumer price indices for Los Angeles and San Francisco. The table shows that the total SSI/SSP grant will increase 16.9 percent and the SSP grant will increase 21.9 percent, even though the combined consumer price indices rose only 14.7 percent between December 1978 and December 1979 (the period used to determine the cost-of-living adjustment).

Table 10
SSI/SSP Grant for An Aged Individual
1979–80 and 1980–81

	Total SSI/SSP Grant		*SSI Grant*		*SSP Grant*		*Change in Consumer Price Index*[a]	
	Amount	*Percent Change*	*Amount*	*Percent Change*	*Amount*	*Percent Change*	*Percent Change*	*Period*
1979–80	$356.00	—	$208.20	—	$147.80	—	—	—
1980–81	416.00	16.9%	235.90	13.3%[b]	180.10	21.9%	14.7%	12-79/ 12-78

[a] Reflects the change in the average of the indices for Los Angeles and San Francisco.
[b] Reflects the federal cost-of-living adjustment for the SSI grant. The federal cost-of-living adjustment is based on the change in the U.S. CPI from the January–March 1979 quarter to the January–March 1980 quarter, which is estimated to increase by 13.3 percent.

Thus, under the current method used to calculate the cost-of-living increase, the SSP grant will increase 49 percent more than the change in the consumer price indices used to determine the cost-of-living adjustment (21.9 percent SSP cost-of-living increase ÷ 14.7 percent change in CPI = 49 percent difference).

2. *Disparity in the Cost-of-Living Adjustment Provided AFDC Recipients.* The cost-of-living formula used for calculating the SSI/SSP grant results in a difference between the inflation adjustment provided AFDC recipients and that provided SSI/SSP recipients. Table 11 compares the change in the grant level of one AFDC recipient with that of an aged SSI/SSP recipient for 1980–81. It shows that the total SSI/SSP grant will increase by 16.9 percent while the grant level for an AFDC recipient will increase by 14.9 percent or an increase approximately equal to the change in the Consumer Price Index.

Table 11
Grant Levels for an Aged Individual Receiving SSI/SSP and One Person Receiving AFDC
1979–80 and 1980–81

	Aged SSI/SSP Recipient		*One Person AFDC Recipient*		*Change in Consumer Price Index*	
	Grant	*Percent Change*	*Grant*	*Percent Change*	*Percent Change*	*Period*
1979–80	$356.00	—	$201.00	—	—	-
1980–81	416.00	16.9%	231.00	14.9%	14.7%	12-79/ 12-78

If the current method of calculating the cost-of-living increase was modified so that the change in the Consumer Price Index was applied against the total grant (as is done in adjusting AFDC grants), the grant for an aged individual in 1980–81 would be $408 per month, as shown in Table 12. This method would provide a 14.6 percent cost-of-living increase instead of a 16.9 percent increase, and therefore would more accurately reflect the increase in the Consumer Price Index. Because the grant amount would be $8 less than the amount provided under current me-

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND AND DISABLED—Continued

thodology, it would result in a savings of $54.2 million to the General Fund in 1980–81. The revised methodology would result in a General Fund savings of $701,828,700 over a five year period.

Table 12
Grant Levels for an Aged Individual Receiving SSI/SSP
1979–80 and 1980–81

	Current Law Method		*Alternative Method*		*Change in Consumer Price Index*	
	Grant	*Percent Change*	*Grant*	*Percent Change*	*Percent Change*	*Period*
1979–80	$356	—	$356	—	—	—
1980–81	416	16.9%	408	14.6%	14.7%	12-79/ 12-78

Problems in Measuring Inflation. The most popular way of measuring inflation is to use the Consumer Price Index (CPI). The CPI is a statistical device which records changes over time in the cost of a defined "market basket" of goods and services. The market basket includes food, housing, clothing, transportation, medical care, entertainment and other categories.

The Bureau of Labor Statistics has constructed two CPI "market baskets." One market basket is based on the consumption behavior of all urban area residents and represents about 80 percent of the nation's households. The other is based on the purchasing habits of only wage and clerical workers in urban areas and represents only 40 to 50 percent of all households.

Our analysis suggests that there are several problems with using these indices for determining the impact of inflation on welfare recipients. First, there is currently no specific index which measures the impact of inflation on the goods and services typically purchased by welfare recipients. As a substitute, existing law uses the average change in the "market basket" of goods and services purchased by urban wage and clerical workers in the San Francisco and Los Angeles areas. However, welfare recipients do not have the same purchasing patterns or face the same price pressures as wage earners and clerical consumers. For example, the index includes the impact of increased costs for items which many SSI/SSP recipients do not purchase. Specifically, almost one-quarter of the total expenditures measured by the index is for homeownership, although most SSI/SSP recipients are renters and do not purchase homes.

Second, the CPI can overstate the rate of inflation faced by the average consumer because it does not measure changes in consumption patterns which occur during periods of high inflation. This is a particularly serious problem during periods of rapid inflation when consumers tend to shift away from purchasing goods exhibiting the largest price increases to goods that are increasing at a slower rate. For example, when gasoline prices increase and consumers cut back on their use of automobiles, the index does not adjust for this change.

There are several alternatives to using a Consumer Price Index to measure "inflation." One alternative is the Gross National Product (GNP) Consumption Deflator published by the U.S. Department of Commerce. This index more nearly reflects the actual increases in prices paid by the average consumer because it allows for changes in consumption patterns, and treats housing costs in a way which avoids the bias of only counting new home purchases. In addition to the GNP Consumption Deflator it is possible to adjust one of the existing indices to exclude an item (such as housing) which does not measure increases borne by the consumer.

Third, Chart 1 shows that the rate of "inflation" varies substantially depending on which index is used to measure the change in prices. This chart compares the quarterly percentage change in prices between 1978 and 1979 and shows that as of October 1979:

1. The index with the highest rate of increase was the California CPI for urban consumers which increased by 12.5 percent.
2. If homeownership is excluded from the California CPI for urban consumers, prices rose 10.8 percent, instead of 12.5 percent.
3. The GNP consumption deflator had the lowest rate of increase at 9.1 percent.
4. The California CPI for wage earners and clerical workers for Los Angeles and San Francisco (current law) increased by 11.3 percent.

Table 13 shows the General Fund costs which would result from using various measures of inflation to adjust cash grant levels. In constructing the table, we have measured the change in prices from October 1978 to October 1979, the most recent period for which comparable data are available. In addition, we have assumed that the current method of calculating cost-of-living increases has been modified so that the change in the CPI is applied against the total SSI/SSP grant. Consequently, the rates of inflation and General Fund costs are different from those shown in the Governor's Budget which uses estimates of change from December 1978 to December 1979.

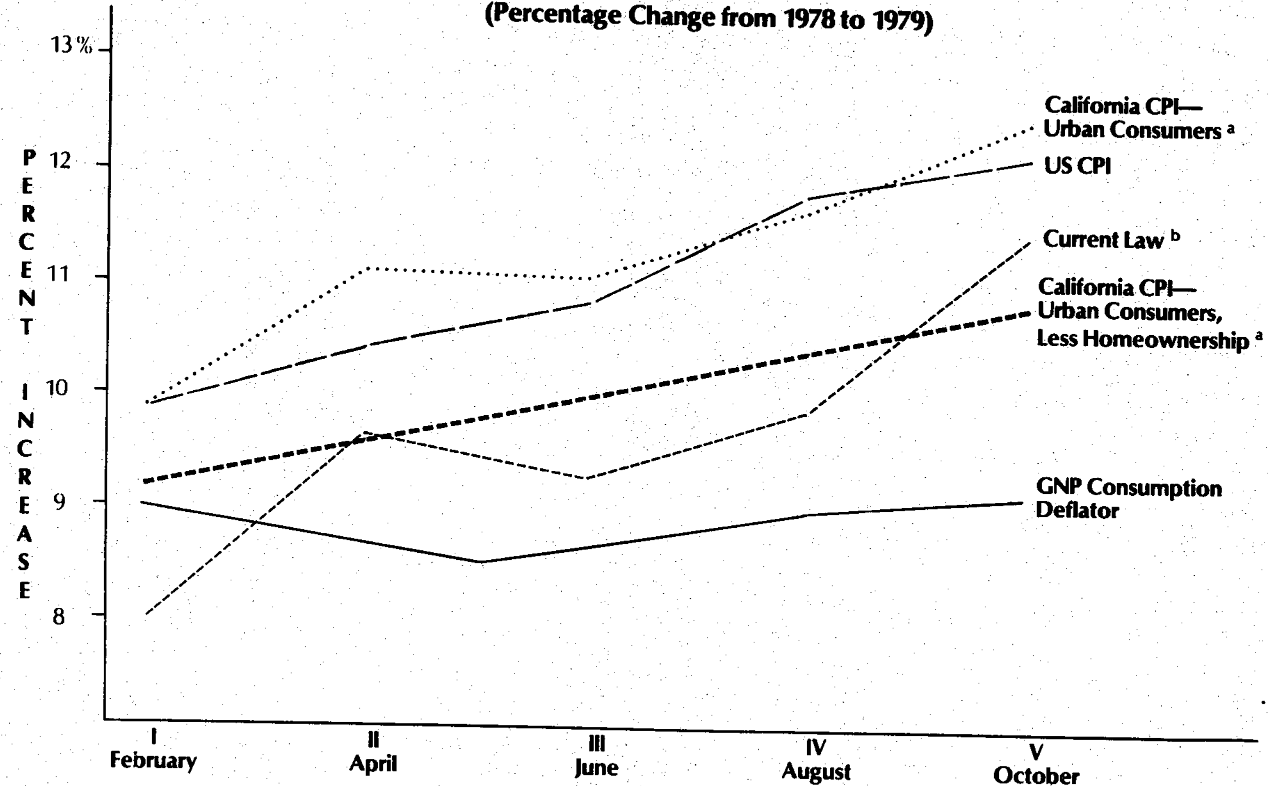
Table 13
General Fund Expenditures for SSP Cost-of-Living Increases Using Various Consumer Price Indices and the GNP Consumption Deflator
Change from October 1978 to October 1979

Alternative Measures of Inflation	*Percent Increase*	*General Fund*[a] *(in millions)*
California CPI—Urban Consumers[b]	12.5%	$221.1
U.S. CPI	12.2	213.1
Current Law[c]	11.3	185.2
California CPI—Urban Consumers (less homeownership)[a]	10.8	170.3
GNP Consumption Deflator	9.1%	$119.3

[a] Assumes change in current method for calculating cost-of-living increases.
[b] Average Los Angeles, San Francisco, San Diego.
[c] California CPI for wage earners and clerical workers. Average for Los Angeles and San Francisco.

Chart 1

Alternative Methods of Measuring the Rate of Inflation
(Percentage Change from 1978 to 1979)



[a] Average Los Angeles, San Francisco, and San Diego
[b] California CPI—Wage Earners and Clerical Workers, Average Los Angeles and San Francisco

Alternative Approach to Providing Cost-of-Living Increases. Our analysis suggests that the statutory requirement to provide an annual cost-of-living adjustment limits the Legislature's ability to set spending priorities. Moreover, if funds for the SSI/SSP program are subject to limitations at the state level, rapid growth in this program could automatically require the state to curtail the growth in spending in other priority areas if it already was appropriating at its limit. In addition, the current method for calculating cost-of-living adjustments for SSI/SSP recipients results in grant increases which are larger than the change in the Consumer Price Index.

Because of these factors, we recommend that legislation be enacted to allow the Legislature to grant cost-of-living increases through the annual budget process rather than automatically through statute. *We are not recommending that welfare recipients be denied cost-of-living increases.* Rather, we are recommending that the Legislature give itself more flexibility in setting spending priorities for the state by considering cost-of-living adjustments in the budget process.

The Legislature may wish to use one of several cost-of-living indices when deciding how much to adjust cash grant levels. We recommend that the Legislature use an index which excludes the impact of increased costs for items which SSI/SSP recipients generally do not purchase (for example, homeownership). Alternatively, the Legislature may wish to use one of the cost-of-living factors provided for under Article XIIIB (the U.S. CPI or state per capita personal income). While these measures may not directly reflect the impact of increased costs of goods and services on welfare recipients in California, they would allow for program growth within the limits set by Article XIIIB.

Consequences of Modifying The Cost-of-Living Adjustment For SSI/SSP Recipients. If no cost-of-living increase was provided on the SSP grant for 1980–81, General Fund savings would total approximately $263.0 million. This amount would increase by almost $224.0 million, for total savings of $487.0 million, if the state did not pass on the federal cost-of-living adjustment on the SSI grant. Failure to provide either one of the cost-of-living adjustments would have the following consequences.

a. *Loss of Food Stamp "Cash-Out" Status.* If California failed to provide either of the two cost-of-living increases, it would be required to provide food stamps to eligible SSI/SSP recipients. Under current federal law, California is allowed to provide cash in lieu of food stamps to eligible SSI/SSP recipients so long as the state: (1) passes on the federal cost-of-living increase for the SSI grant and (2) provides a cost-of-living increase for the SSP grant pursuant to current state law. This provision of federal law allows the state to avoid the administrative costs which would occur if county welfare departments were required to distribute food stamps to SSI/SSP Recipients.

It is assumed that in the absence of a change in federal law, the state would lose its "cash-out" status if it failed to provide a cost-of-living increase to SSI/SSP recipients. As a result, the state and counties would incur administrative costs of $35.4 million to provide food stamps to eligible SSI/SSP recipients. Under current sharing ratios, the state and counties each would pay $17.7 million. The federal government would contribute

$35.4 million.

b. *Failure to Meet the Federal Government's Maintenance of Effort Requirement (PL 94-585).* In order to receive federal Title XIX Medicaid funds (Medi-Cal), the state is required to either (1) maintain its gross expenditures for the SSP program at the current year levels or (2) maintain the state payment levels provided in December 1976. The state has been complying with this law by meeting the gross expenditure test because the state has not maintained the payment level for a category of recipients referred to as mandatory supplementation cases.

If the SSP cost-of-living increase is not provided, it is unlikely that the state's expenditures for the SSP program would be sufficient to meet the gross expenditure test. If the state failed to meet the gross expenditure test, it could still avoid the loss of Medicaid funds by insuring that SSP grants for all categories of recipients did not drop below the grant levels paid in December 1976. In order to meet this requirement, the state would be required to provide the cumulative amount of all SSI cost-of-living increases since December 1976 to mandatory supplementation cases. The General Fund cost to provide the cost-of-living increases to the mandatory supplementation cases would be approximately $3.0 million in 1980–81.

Department of Social Services
SPECIAL ADULT PROGRAMS

Item 311 from the General Fund — Budget p. HW 150

Requested 1980–81	$4,196,000
Estimated 1979–80	3,708,700
Actual 1978–79	5,269,496
Requested increase $487,300 (+13.1 percent)	
Total recommended reduction	$100,508

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Special Circumstances. Reduce by $100,508.* Recommend cost-of-living increase be reduced from 14.65 percent to 9 percent, for a General Fund savings of $100,508. 901
2. Administrative Costs for Cash Assistance Programs. Recommend that federal funds for administrative costs for Indochinese and Cuban refugees scheduled in Item 311 be reduced by $6,900,700 and that federal funds in Item 313 (county welfare department administration) be increased by a similar amount. 904

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation to provide grants for the emergency and special needs of SSI/SSP recipients. The special allowance programs for SSI/SSP recipients are paid entirely from the General Fund and are administered by county welfare departments. In addition, this item contains the grant and administrative costs of three programs which are 100 percent federally funded: (a) Indochinese refugees who do not meet the eligibility criteria for other cash assistance programs, (b) Cuban refugees on general relief and (c) repatriated Americans.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $4,196,000 from the General Fund for special adult programs administered by the Department of Social Services in 1980–81. This is an increase of $487,300, or 13.1 percent, over estimated current year expenditures.

Total expenditures for this item are proposed at $73,771,000, an increase of $34,235,700, or 86.6 percent, over estimated current year expenditures. The federal government will pay $69,575,000, or 94.3 percent, of this amount. Most of these expenditures ($62,005,900) are for cash grants to Indochinese refugees who normally would not be eligible for assistance under the AFDC program, but who, due to federal law, will receive a grant equal to the AFDC payment standard. When the federal legislation for the Indochinese Refugee Assistance program expires, these refugees will either receive county general relief or no assistance. Table 1 shows the proposed expenditures for special adult programs in 1980–81.

Special Circumstances (Item 311(a))

We recommend that the cost-of-living increase be reduced from 14.65 percent to 9 percent, for a General Fund savings of $100,508.

The special circumstances program provides adult recipients with special assistance in times of emergency. Payments can be made for replacement of furniture, equipment or clothing which is damaged or destroyed by a catastrophe. Payments also are made for moving expenses, housing repairs and emergency rent.

The budget proposes $1,930,900 for grants under the special circumstances program for 1980–81. This is an increase of $240,900, or 14.3 percent, over the estimated current year expenditures. The Department of Social Services indicates that the proposed expenditures include funds for a 14.65 percent cost-of-living increase. Our analysis indicates that a 9 percent cost-of-living adjustment should be provided for special circumstances programs instead of a 14.65 percent adjustment.

First, the amounts provided under the special circumstances program generally are one-time allowances to cover emergency expenditures and are not considered grants designed to maintain the recipients' standard of living.

Second, there is no statutory requirement to provide a 14.65 percent cost-of-living increase for the special circumstances program.

Table 1
Special Adult Programs
1979–80 and 1980–81

Program	*Estimated 1979–80*			*Proposed 1980–81*			*Percent Change*		
	State	*Federal*	*Total*	*State*	*Federal*	*Total*	*State*	*Federal*	*Total*
Special circumstances	$1,690,000	—	$1,690,000	$1,930,000	—	$1,930,900	14.3%	—	14.3%
Special benefits	147,400 [a]	—	147,400	116,900	—	116,900	−20.7	—	−20.7
Aid to the potentially self-supporting blind	1,310,000	—	1,310,000	1,632,100	—	1,632,100	24.6	—	24.6
Emergency payments	561,300	—	561,300	516,100	—	516,100	−8.1	—	−8.1
Repatriated Americans	—	$40,000	40,000	—	$40,000	40,000	—	—	—
Indochinese Refugees:									
Grants	—	31,483,000	31,483,000	—	62,005,900	62,005,900	—	97.0%	97.0
Administration	—	3,487,400	3,487,400	—	6,642,800	6,642,800	—	90.5	90.5
Cuban Refugees:									
Grants	—	568,700	568,700	—	628,400	628,400	—	10.5	10.5
Administration	—	247,500	247,500	—	257,900	257,900	—	4.2	4.2
Totals	$3,708,700	$35,826,600	$39,535,300	$4,196,000	$69,575,000	$73,771,000	13.1%	94.2%	86.6%

[a] Includes $40,100 in benefit payments related to the *Harrington v. Obledo* court case.

Third, the administration has proposed a 9 percent cost-of-living adjustment for similar programs where the cost-of-living increase is discretionary.

Therefore, we recommend that a 9 percent cost-of-living increase be provided this program instead of a 14.65 percent adjustment.

Special Benefits (Item 311(b))

This item contains funds for (a) SSP recipients who have guide dogs and (b) recipients of assistance resulting from the *Harrington v. Obledo* court case. The guide dog program provides a special monthly allowance to cover the cost of dog food. The budget proposes $111,900 for fiscal 1980–81, which is an increase of $4,600, or 4.3 percent, over the current year.

The *Harrington v. Obledo* court case concerns two welfare recipients who received aid under California's adult welfare program, but who were not eligible to receive aid under the SSI/SSP program when it replaced the categorical aid programs on January 1, 1974. The California Court of Appeals ruled that the two plaintiffs were entitled to assistance at state expense. State expenditures for this assistance are proposed at $5,000 in the budget year.

Aid to Potentially Self-Supporting Blind (Item 311(c))

The Aid to Potentially Self-Supporting Blind (APSB) program provides payments to blind recipients who earn more income than is allowed under the basic SSI/SSP program. The program seeks to encourage these individuals to become economically self-supporting. The budget proposes $1,632,100 for 1980–81, which is an increase of $322,100, or 24.6 percent, over estimated current year expenditures. The increase is due to a proposed 14.65 percent cost-of-living adjustment and an increase in caseload.

Emergency Payments (Uncollectible Loans (Item 311(d))

Chapter 1216, Statutes of 1973, mandates that counties provide emergency loans to aged, blind and disabled recipients whose regular monthly checks from the federal Social Security Administration have been lost, stolen or delayed. The budget proposes $516,100 for 1980–81, which is $45,200, or 8.1 percent, below estimated current year expenditures.

This estimated decrease is due to Chapter 724, Statutes of 1978 (SB 1631), which allows the department to adopt regulations that require individuals to repay previous loans before they can be eligible to receive a new loan.

Temporary Assistance for Repatriated Americans (Item 311(e))

The federal repatriate program is designed to provide temporary help to needy U.S. citizens returning to the United States from foreign countries because of destitution, physical or mental illness or war. Recipients can be provided temporary assistance to meet their immediate needs and continuing assistance for a period of up to 12 months. County welfare departments administer the program based on federal and state guidelines. The program is 100 percent federally funded. Expenditures for the budget year are proposed at $40,000, the same amount estimated for the current year.

SPECIAL ADULT PROGRAMS—Continued

Indochinese Refugees (Item 311(f))

The Indochinese Refugee Assistance program was established by federal law to provide benefits to eligible Indochinese refugees. Historically, the federal government has paid the entire cost of cash grants, social services and medical assistance provided to Indochinese refugees. On November 13, 1979, President Carter signed the Cambodian Relief Act (PL 96-110) which extends 100 percent federal funding for Indochinese refugees through September 30, 1981.

The federal funds for cash grant payments to Indochinese refugees who qualify for the Aid to Families with Dependent Children (AFDC) program are limited by Control Section 32.5 of the 1980 Budget Bill. Assistance for Indochinese refugees who qualify under the Supplemental Security Income/State Supplementary Payment program are included in Item 310.

Item 311(f) contains federal funds for cash grants and administrative costs related to Indochinese refugees who do not meet the eligibility requirements for the AFDC and SSI/SSP programs. The budget proposes expenditures of $68,648,700 from federal funds for these costs. This includes $62,005,900 for grants and $6,642,800 for administrative costs. Total expenditures are estimated to increase by $33,678,300, or 96.3 percent, over current year expenditures. The significant increase in expenditures is due to projected caseload growth. The department estimates that the number of Indochinese refugees receiving assistance under this special program will increase from approximately 22,950 in the current year to 39,433 in the budget year.

Cuban Refugees (Item 311(g))

This item contains federal funds for cash grants and administrative costs related to Cuban refugees who do not meet the eligibility requirements for the AFDC and SSI/SSP programs but who are receiving general relief grants from counties. The budget proposes federal expenditures of $886,300 for the budget year. This includes $628,400 for grants and $257,900 for administrative costs. Expenditures are estimated to increase $70,100, or 8.6 percent, over the current year.

Scheduling of Federal Funds for County Welfare Department Administrative Costs

We recommend that federal funds for county welfare department administrative costs for Indochinese and Cuban refugees scheduled in Item 311 be reduced by $6,900,700 and that federal funds in Item 313 (county administration) be increased by $6,900,700.

As we mentioned earlier, Item 311 contains both the grant and administrative costs related to two refugee programs which are 100 percent federally funded in 1980–81: (1) Indochinese refugees and (2) Cuban refugees. The administrative costs for these programs total $6,900,700.

All funds for county welfare administration should be budgeted in the same item in order to facilitate legislative review of these expenditures. Accordingly, we recommend that these administrative costs be scheduled in Item 313 which is the item where county welfare administrative costs are normally scheduled.

Department of Social Services
SOCIAL SERVICES PROGRAMS

Item 312 from the General Fund — Budget p. HW 154

Requested 1980–81	$195,424,741
Estimated 1979–80	156,936,886
Actual 1978–79	126,668,613
Requested increase (excluding amount for salary increases) $38,487,855 (+24.5 percent)	
Total recommended reduction	$10,547,864

1980–81 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
312	Social Services Programs	General	$191,737,701
	Welfare and Institutions Code, Section 16151	General	2,193,400
	Budget Act of 1978, Item 274	General	1,493,640
	Total		$195,424,741

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. *Reserve for Federal Requirements. Reduce federal funds by $25,101,772.* Recommend deletion of proposed federal funds reserve, until such time that (a) augmentation to federal funds is assured and (b) a specific expenditure proposal is reviewed by the Legislature.	913
2. *Population Adjustment to Title XX Allocation. Reduce by $1,448,840.* Recommend federal funds available in state fiscal year 1980–81 replace General Fund support for In-Home Supportive Services.	914
3. The Social Services Planning Act, AB 1642. Recommend the department submit an overall plan for three-year phase-in, to the Legislature prior to budget hearings.	916
4. Social Services Policy Task Force Draft Regulations. Recommend Department of Finance review a single regulations package for proposed social services redesign. Further recommend Budget Act language requiring that Legislature be notified prior to expansions or alterations in social services programs.	917
5. In-Home Supportive Services. Recommend Budget Act language requiring cost control plan by December 15, 1980	921
6. *In-Home Supportive Services Minimum Wage Increase.*	924

SOCIAL SERVICES PROGRAMS—Continued

Reduce by $2,899,986. Recommend General Fund reduction in amount overbudgeted for minimum wage increases to individual providers.

7. In-Home Supportive Services Cost-of-Living Adjustments. Recommend enactment of legislation providing cost-of-living adjustments for in-home supportive services payments through the annual budget process rather than automatically through statute. 925
8. *Twenty-Four Hour Emergency Response System. Reduce by $5 million.* Recommend replacement of General Fund support in order to fund the system as a component of the other county social services program. 927
9. Community Care Licensing Revised Allocation Method. Withhold recommendation on proposed licensing increase of $523,200 pending receipt of specified information. 930
10. *Adoptions Caseload Increase. Reduce by $982,588.* Recommend funds budgeted for 5.4 percent increase in adoptive placements be deleted due to inappropriate caseload projection. 932
11. *Rape Victim Counseling Centers. Reduce by $135,050.* Recommend deletion of funds overbudgeted for 1980–81. 934
12. *Licensed Maternity Care Home Program. Reduce by $81,400.* Recommend Budget Act language to appropriate amount other than statutory appropriation. Further recommend reduction of $81,400 overbudgeted for 1980–81. 934

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers various social services programs which provide *services* to eligible clients or to individuals and facilities serving clients, rather than *cash* as the AFDC and SSI/SSP programs provide. The programs differ from each other in the nature of the services provided, the characteristics of clients served, the source of funding, and the agency that delivers the service.

Social services programs are administered by the Adult and Family Services and Community Care Licensing Divisions of the department. The budget includes seven programs: (1) other county social services, (2) specialized adult services, (3) specialized family and children's services, (4) adoptions, (5) county staff development and services training, (6) demonstration projects, and (7) community care licensing. The major components of these programs are identified below.

Title XX Social Services

The department is the single state agency designated to receive federal social services funds from Title XX of the Social Security Act. Federal regulations require that at least three services be provided for SSI/SSP recipients, and that at least one service be directed to achieving each of the five federal Title XX program goals of (1) self-support, (2) self-sufficiency, (3) protection of children and adults and reunification of families, (4) prevention or reduction of inappropriate institutional placements, and

(5) institutionalization only when necessary. The only specific service mandated by federal law is family planning for AFDC recipients.

Federal financial participation in state Title XX programs is contingent on preparation of a statewide Comprehensive Annual Services Program (CASP) Plan. The annual CASP must identify and describe (a) the services to be provided within the Title XX program, (b) the specific target groups for each service, and (c) the structure of the social services delivery system. Federal regulations allow each state to establish a delivery system that is most appropriate to the state's Title XX needs.

County-Administered Services. County welfare departments administer the majority of California's Title XX social services. State law and regulations (1) require counties to provide 10 specific services and (2) permit counties to offer any of 14 additional services. One of the 10 mandated activities is In-Home Supportive Services (IHSS). The 23 remaining services comprise the Other County Social Services (OCSS) program.

Of the 10 mandated activities, four are required to be available to all persons: information and referral, protective services for adults, protective services for children, and court ordered foster care. Other services are provided to individuals who receive SSI/SSP or AFDC, or who are eligible because of their low income.

State-Administered Services. The budget proposes that specific Title XX social services be provided by the Department of Health Services (family planning) and the Department of Education (child development programs). Federal funds received by the Department of Social Services as the single state agency responsible for Title XX are transferred to those departments under the terms of separate interagency agreements.

Federal Title XX Allocations. Based on its share of the nation's total population, California receives approximately 10 percent of the federal funds available each fiscal year from Title XX of the Social Security Act. In 1972, Congress enacted legislation establishing a cap of $2.5 billion on federal Title XX funds. However, since 1976, Congress has enacted temporary annual increases to this limit.

Title XX Matching Requirements. Federal law requires that federal Title XX funds expended on most social services be matched on a 75:25 federal/non-federal sharing basis. Family planning services, however, require only a 10 percent non-federal match. Child development program augmentations are 100 percent federally funded. Because federal Title XX funds are capped, any expenditures that exceed the federal allocation, plus the non-federal match, must be supported with state and local funds. California is now providing support for social services which far exceeds the 25 percent non-federal required match.

Other Social Services

In addition to Title XX social services, the department is responsible for administering the following social services programs:

1. Child welfare services which are funded under Title IV-B of the Social Security Act. In fiscal 1979–80, California was allocated $4.1 million in federal Title IV-B funds which was matched by counties at a 75 percent federal/25 percent county ratio. Title IV-B funds are used to supplement

SOCIAL SERVICES PROGRAMS—Continued

protective services for children.

2. Maternity care services which are funded from a continuing annual General Fund appropriation of $2.4 million pursuant to Section 16151 of the Welfare and Institutions Code. These funds are used to reimburse nonprofit licensed maternity homes for the cost of care and services provided to unmarried pregnant women.

3. Work Incentive Program (WIN) social services, which are funded 90 percent by federal funds and 10 percent by the General Fund. Federal law requires that all nonexempt AFDC applicants register with local WIN sponsors to receive employment and job training services. Through local separate administrative units (SAUs), the Department of Social Services administers supportive social services, including child care, for WIN participants.

4. Services to Indochinese refugees, which are 100 percent federally-funded through October 1981. These social services, job training and English language instruction programs are provided by county welfare departments and private contractors.

5. Adoption services which are 100 percent state-funded.

6. Community care licensing services provided by counties, under contract with the state, which are 100 percent state-funded. (Facilities evaluation and licensing conducted directly by state personnel are included in Item 309, Departmental Support.)

7. Demonstration programs whch are funded individually by the state or federal government. These programs address a variety of programmatic and procedural alternatives to existing social services delivery systems.

8. County staff development and training programs which are supported by federal Title XX funds and matched with state, county and university funds. these programs are directed at both long-term skill needs and immediate needs for short-term training of service workers providing Title XX services.

9. Rape victim counseling centers which are 100 percent state-funded. These centers were funded through the budget for the first time in the 1979 Budget Act.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $195,424,741 from the General Fund for social services programs in 1980–81, which is an increase of $38,487,855, or 24.5 percent, over estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Total expenditures include $191,737,701 in this item, $2,193,400 appropriated by Section 16151 of the Welfare and Institutions Code for maternity care services, and $1,493,640 carried forward from the 1979 Budget Act for the Multipurpose Senior Services Project. Increases in caseload and other costs for the In-Home Supportive Services program account for $32,346,550 or 84 percent, of the proposed increase in the General Fund appropriation for social services. Table 1 identifies the major components of this increase.

Table 1
Proposed 1980–81 General Fund Budget Adjustments for Social Services Program

	Adjustment	*Total*
A. 1979–80 Current Year Revised		$156,936,886
B. Budget Adjustments		
1. In-Home Supportive Services		
a. Caseload growth (7.9 percent)	$11,081,950	
b. 1979–80 cost-of-living	114,500	
c. 1980–81 statutory increase	4,113,700	
d. Minimum wage increases	15,440,300	
e. Provider benefits (Chapter 463, Statutes of 1978)	460,200	
f. Services for clients earning income (Chapter 1362, Statutes of 1978)	13,200	
g. Paramedical services (Chapter 1071, Statutes of 1979)	616,900	
h. Parent providers (Chapter 1059, Statutes of 1979)	25,900	
i. IHSS regulations	479,900	
Subtotal		32,346,550
2. Rape Crisis Centers		
a. Transfer from Item 288.1	200,000	
b. Cost-of-living increase	18,000	
		218,000
3. Maternity Care		
a. Cost-of-living		214,700
4. WIN		
a. Long Beach Project	70,154	
b. Caseload increase	156,046	
		226,200
5. Adoptions		
a. Caseload growth (5.4 percent)	773,100	
b. 1979–80 cost-of-living	64,900	
c. 1980–81 cost-of-living	1,469,043	
d. Increase in fees	−2,700	
e. Hard to place children	8,000	
Subtotal		2,312,343
6. Demonstration Programs		
a. Termination of Projects	−1,630,391	
b. Multipurpose senior project carry forward	1,487,280	
c. IHSS needs assessment project cost-of-living	9,765	
d. Adjustment to Family Protection Act (Chapter 21, Statutes of 1977)	500	
Subtotal		−132,846
7. Community Care Licensing		
a. Facilities increase	770,500	
b. Revised allocation method	480,000	
c. 1979–80 cost-of-living	149,100	
d. 1980–81 cost-of-living	1,388,500	
e. Regulations implemented in 1980–81	−118,292	
f. Regulations to be implemented in 1980–81	489,500	
g. Registration pilot project (Chapter 1063, Statutes of 1979)	143,600	
Subtotal		3,302,908
Total Proposed General Fund Increases		38,487,855
C. Proposed Total General Fund		195,424,741
D. Other General Fund Appropriations		
1. Multipurpose Senior Services Projects	−1,493,640	
2 Licensed Maternity Care Home	−2,193,400	
Subtotal		−3,687,040
E. General Fund in Item 312		$191,737,701

SOCIAL SERVICES PROGRAMS—Continued

Total expenditures, all funds, for social services programs are projected to total $656,016,074 in 1980–81. This is an increase of $107,024,312, or 19.5 percent, over total estimated current year expenditures. Table 2 identifies total proposed expenditures for social services programs for the budget year.

Table 2
Total 1980–81 Proposed Expenditures for Social Services Programs

	General Fund in Item 312	*Other General Fund*	*Federal Funds in Item 312*	*County Funds*	*Reimbursements*	*Total*
A. Title XX Social Services						
1. In-Home Supportive Services	$149,424,493	—	$99,092,607	—	—	$248,517,100
2. Other County Social Services						
a. Adult and family and children services	—	—	144,327,010	$47,611,630	—	191,938,640
b. 24-hour emergency response system	5,000,000	—	2,929,319	2,643,107	—	10,572,426
3. Child development (Department of Education)	—	$10,671,314	52,013,942	—	—	62,685,256
4. Family planning (Department of Health Services)	—	444,444	4,000,000	—	—	4,444,444
5. Reserve for new federal requirements	—	—	25,101,772	—	—	25,101,772
Subtotals	$154,424,493	$11,115,758	$327,464,650	$50,254,737	—	$543,259,638
B. Title XX Training						
1. County staff development	—	—	$1,889,550	$629,850	—	$2,519,400
2. Services training	—	—	11,434,200	—	$3,811,400	15,245,600
Subtotals	—	—	$13,323,750	$629,850	$3,811,400	$17,765,000
C. Indochinese Refugee Assistance Program						
1. County social services						
a. In-Home Supportive Services	—	—	$958,400	—	—	$958,400
b. Other County Social Services	—	—	7,505,700	—	—	7,505,700
2. Social services contracts	—	—	20,575,500	—	—	20,575,500
Subtotals	—	—	$29,039,600	—	—	$29,039,600
D. Other Social Services						
1. Adoptions	$17,584,043	—	—	—	—	$17,584,043
2. Community care licensing	16,857,400	—	—	—	—	16,857,400
3. Demonstration projects	2,018,265	$1,493,640	$269,093	$100,000	—	3,880,998
4. Child welfare services (Title IV-B)	—	—	4,119,446	1,373,149	—	5,492,595
5. Work incentive program (Title IV-C)						
a. WIN child care	635,500	—	5,719,300	—	—	6,354,800
b. WIN administrative unit	—	—	12,033,500	1,337,100	—	13,370,600
6. Rape victim counseling centers	218,000	—	—	—	—	218,000
7. Maternity care	—	2,193,400	—	—	—	2,193,400
Subtotals	$37,313,208	$3,687,040	$22,141,339	$2,810,249	—	$65,951,836
Totals	$191,737,701	$14,802,798	$391,969,339	$53,694,836	$3,811,400	$656,016,074

Title XX—State and County Overmatch

Section 15151.5 of the Welfare and Institutions Code requires that at least 66 percent of federal Title XX funds be allocated to the counties. The budget proposes that $246,348,936, or 75.2 percent, of the available Title XX funds be allocated to the counties in 1980–81. The remaining federal funds, $81,115,714 (24.8 percent of the total), are allocated to state programs.

Of the $246,348,936 allocated to the counties by the budget, $99,092,607 is for IHSS and $147,256,329 is for the OCSS program. (In addition, $8,464,100 in federal funds for social services provided by county welfare departments to Indochinese refugees is included in the budget subitems for IHSS and OCSS.)

Section 12306 of the Welfare and Institutions Code requires the state to provide the 25 percent match for federal funds used for IHSS. Because federal funds are capped, every additional dollar spent on IHSS must come from the General Fund.

In order to receive federal Title XX funds, counties traditionally have provided the 25 percent match for OCSS. In addition, the state has provided General Fund support for OCSS, although it is not required by state law to do so.

For fiscal year 1980–81, total state and county Title XX expenditures will be $114,195,661 above the amount needed to provide a 25 percent match for federal funds. Table 3 displays the relationship between state, county and federal Title XX expenditures from 1977–78 through 1980–81.

Table 3
Title XX Program Funding Sources
1977–78 to 1980–81

	Federal	*State General Fund*	*County*	*Totals*	*Percent General Fund*
1977–78	$276,585,768	$71,275,945	$46,335,905	$394,197,618	18.1%
1978–79	274,237,842	115,959,405	41,160,800	431,358,047	26.9
1979–80 (Estimated)	290,733,000	133,193,701	47,559,546	471,486,247	28.2
1980–81 (Proposed)	$327,464,650	$165,540,251	$50,254,737	$543,259,638	30.5%

Source: Department of Social Services

Potential Increase in Federal Funds

In federal fiscal year 1979, PL 95-600 (HR 13511) increased the national Title XX limit on a one-time basis to $2.9 billion. As a result of this increase, California's Title XX allocation in 1979–80 was $290 million, rather than $250 million as it would have been otherwise. For federal fiscal year 1980, California's allocation has been reduced to approximately $250 million because under existing federal law, the national cap on Title XX funds reverts to $2.5 billion.

The U.S. Congress is currently considering legislation (HR 3434) which

SOCIAL SERVICES PROGRAMS—Continued

would permanently increase the cap on available federal Title XX funds. The Senate and House versions of this bill, which are scheduled to be considered in conference committee in spring 1980, propose new spending limits of $2.7 billion and $3.1 billion, respectively, for federal fiscal year 1980. Table 4 summarizes the proposed spending limits included in the two versions.

Table 4
Federal Title XX Spending Limits
Proposed by the Two Versions of HR 3434
Federal Fiscal Years 1980–1985
(in billions)

	Senate	*House*
1980	$2.7	$3.1
1981	2.9	3.1
1982	3.0	3.1
1983	3.1	3.1
1984	3.2	3.1
1985	3.3	3.1

Proposed Use of Additional Federal Funds

PL 95-600 (HR 13511) increased the state's federal Title XX allocation on a one-time basis by $40,103,000 for federal fiscal year 1979. As Table 5 indicates, the department allocated $6,845,100 of this amount for other county social services in 1978–79 (utilizing the authority provided by Section 28 of the Budget Act), the remainder—$33,251,900—was allocated for other county social services and child development programs in 1979–80 by the Legislature in the 1979 Budget Act.

The Department of Social Services anticipates that a version of HR 3434 will be approved by the U.S. Congress and will make available to California an additional $40 million in federal fiscal year 1980 and $40 million in federal fiscal year 1981.

Because the federal fiscal years overlap state fiscal years, the state will be able to use funds from two federal fiscal years at once. This will result in a one-time increase in federal Title XX funds of $40 million and an ongoing increase to the federal Title XX allocation of $40 million. The budget proposes to expend the $80 million anticipated from HR 3434 as follows:

1) $6,845,100 for other county social services in 1979–80, in accordance with the provisions of the 1979 Budget Act.

2) $73,145,900 for other county social services, child development, and a reserve for new federal requirements, in 1980–81. Table 5 identifies how the budget proposes to allocate the projected $80 million increase.

Implications for Future Funding of Social Services Programs. Increasing the federal Title XX expenditures to approximately $330 million in 1980–81, as the budget proposes, would create a higher base expenditure level for future years. This higher base could not be sustained if federal funds in 1981–82 and later years remain at the $290 million level. Hence, over time, the state would be required to make up the difference between the level of expenditures for the budget year and the amount of Title XX money coming into the state.

Table 5
Federal Title XX Funds
Source and Expenditure
1979–80 and 1980–81

	Estimated 1979–80	*Proposed 1980–81*	*Change* Amount	Percent
1. Basic allocation under $2.5 billion national spending limit	$248,500,000	$253,037,000	$4,537,000	1.8%
2. Adjustment for population increase	2,130,000	1,272,750	—	—
3. Increase due to HR 13511	33,257,900 [a]	—	—	—
a. Other county social services—replacing General Fund	(6,845,100)	—	—	—
b. Other county social services—cost of living	(6,361,800)	—	—	—
c. Child development	(20,051,000)	—	—	—
4. Increase expected with passage of HR 3434	6,845,100 [b]	73,154,900 [b]	—	—
a. Other county social services—continue HR 13511 funding level	—	(13,206,900)	—	—
b. Other county social services—cost of living	—	(11,916,909)	—	—
c. Other county social services—24-hour emergency response system	—	(2,929,319)	—	—
d. Child development	—	(20,000,000)	—	—
e. Reserve for new federal requirements	—	(25,101,772)	—	—
Totals	$290,733,000	$327,464,650	$36,731,650	12.6%

[a] The total amount available from the passage of HR 13511 was $40,103,000. Of this amount, $6,845,100 was allocated for expenditure for other county social services in 1978–79.

[b] The total amount expected from HR 3434 is $80 million. The budget proposes to allocate $6,845,100 for 1979–80 and the remainder for expenditures in 1980–81.

Funds Reserved for Federal Requirements

We recommend that $25,101,772 proposed as a reserve for federal requirements be deleted from the budget until such time that (1) the augmentation to federal funds is assured by the passage of HR 3434 and (2) a specific proposal for the expenditure of these funds is reviewed by the Legislature.

Budget Proposal. The budget proposes that $25,101,772 in new federal funds resulting from HR 3434 be budgeted as a "reserve for federal requirements." According to the department, this amount will be used to accomplish unspecified program objectives of HR 3434 related to child welfare services, foster care and adoption assistance programs. However, the department does not have a plan for expenditure of the funds and has been unable to identify the level of expenditure necessary to meet potential federal requirements.

Legislative Review Necessary. Because the department has been unable to identify the specific ways in which reserve funds would be used, we conclude that the administration is, in effect, proposing to establish a $25 million contingency fund. If approved, this would significantly increase the department's spending authority and deny the Legislature the opportunity to review specific proposals for social services programs. A contingency fund of this type is both undesirable and unnecessary. It is

SOCIAL SERVICES PROGRAMS—Continued

undesirable because it would prevent the Legislature from having a voice in how these funds are used. Moreover, the funds could be used in such a manner as to increase General Fund requirements in future years. It is unnecessary because the administration has procedures at its disposal which allow unbudgeted funds to be spent—specifically Department of Finance budget amendment letters and the Section 28 process—while providing for legislative notification and review.

Therefore, we recommend that $25,101,772 budgeted for "reserve for federal requirements" be deleted. We further recommend that when HR 3434 is enacted and its program requirements are established, the Department of Social Services be directed to submit to the Legislature a specific estimate of costs associated with accomplishing the program objectives of the act and a specific plan for expending all funds for this purpose.

Population Adjustment to Annual Title XX Allocation

We recommend that increased federal Title XX funds in the amount of $1,448,040, which are allocated to California for federal fiscal year 1981 on the basis of the state's increase in population, be included in the 1980–81 budget. We further recommend that these funds be used to replace General Fund support for In-Home Supportive Services, for a General Fund savings of $1,448,840.

Population Adjustment to Title XX Allocation. At the beginning of each federal fiscal year, adjustments are made to each state's allocation of federal Title XX funds to reflect changes in the state's proportion of the national population. The budget contains $1,272,750 for the state's population adjustment for federal fiscal year 1980. However, the budget does not contain an additional population adjustment for federal fiscal year 1981, as announced in the November 30, 1979 Federal Register.

If the total amount of federal Title XX funds available to the states is increased by the passage of HR 3434, California's 1981 population adjustment will also increase above the level shown in the Federal Register. As Table 7 indicates, California's adjustment will be $1,279,179 if there is no change in the base allocation, and $1,448,840 if HR 3434 is enacted in the form anticipated by the budget.

Table 7
Effect of the November 30, 1979
Population Adjustment on California's Title XX Allocation

	Assuming HR 3434 Is Not Enacted	*Assuming HR 3434 Enacted with $2.9 Billion Ceiling*
1981 federal allocation	$255,588,929	$296,448,440
1980 federal allocation	254,309,750	294,999,600
Increase due to population adjustment	$1,279,179	$1,448,840

Budgeting Population Adjustment Increases. In the past, the department has not budgeted these funds in the state fiscal year in which they become available. Instead, the funds have been kept as a reserve. Thus, the department did not budget population adjustment funds for federal fiscal year 1979 in the state's 1978–79 budget. Instead, the funds were held in reserve and used to fund an unanticipated deficit in the IHSS program.

The department advises that the 1980–81 budget does not contain the 1981 population adjustment because the department proposes to hold the money in reserve for state fiscal year 1981–82. Such a reserve, however, is unnecessary because during three-quarters of 1981–82, the state will be able to draw down any new federal funds for the population adjustment made available in federal fiscal year 1982.

The failure to include the federal fiscal year 1981 population adjustment funds in the budget has three consequences:

1. It gives the Legislature a less-than-complete picture of available funds,
2. It reduces the Legislature's options regarding the use of the funds,
3. It requires General Fund support to be higher than necessary.

Therefore, we recommend that federal funds allocated to California in the form of a population increase for federal fiscal year 1981 be included in the budget so as to provide the Legislature with a complete budget of available federal funds. Specifically, we recommend these funds be budgeted for In-Home Supportive Services, thereby permitting a corresponding reduction in General Fund support. Assuming that HR 3434 will pass with a national ceiling of $2.9 billion (as the Governor's Budget assumes), this will result in a General Fund savings of $1,448,800.

The Social Services Planning Act

The Social Services Planning Act, Chapter 1235, Statutes of 1978 (AB 1642), requires the Department of Social Services to: (a) develop a comprehensive needs assessment, planning and allocation process for all social services programs funded by Title XX of the Social Security Act and (b) coordinate Title XX services with other social services programs. The act identifies the department as the state agency responsible for developing the planning and allocation process, and requires the department to base its budget proposals for social services programs on this planning process. The act requires a prediction of program utilization (PPU) to be used to apply needs assessment information to resource allocation decisions during the budget process. AB 1642 requires the PPU to be provided to the Legislature at the time the proposed state budget is submitted, and requires the Legislative Analyst to review the PPU in his Analysis of the Budget Bill.

AB 1642 mandates that planning requirements be implemented during a three-year period beginning July 1, 1979. The first complete planning cycle, including development of the PPU, is not required to be completed until submission of the 1982–83 Governor's Budget. The law requires that the Director of the Department of Social Services (1) specify the sequence of steps which the counties must carry out in order to achieve full implementation of the planning act by the end of the three-year phase-in period, and (2) appoint an interim planning task force to advise the department on the review of county plans and steps necessary for the phase-in of the provisions of AB 1642.

SOCIAL SERVICES PROGRAMS—Continued

Departmental Progress in Implementing the Social Services Planning Act

We recommend that the Department of Social Services present an overall plan to the Legislature for the three-year phase-in of AB 1642 prior to 1980–81 budget hearings. We further recommend that this plan specify the sequence of steps necessary for counties to comply with the act.

The department advises that no official schedule for the phase-in of AB 1642 has been developed or circulated among the counties to assist them in the transition to a new planning process. The lack of an overall implementation schedule (1) results in inadequate planning instructions for counties, (2) renders assessment of progress toward implementation of AB 1642 exceedingly difficult, and (3) jeopardizes eventual implementation of the act.

During 1979–80, the department has (1) pilot tested a claims form which includes service expenditures and staff costs by program, (2) placed greater emphasis on resource coordination and resource allocation in the 1980–81 county planning guidelines, and (3) appointed an interim planning task force that met for the first time on January 30, 1980. The results from the new reporting format had not been completely tabulated at the time this analysis was prepared. These activities, however, are steps toward the compilation of a uniform data base necessary for preparation of the 1982–83 budget and a prediction of program utilization.

Because it is not clear how diverse activities occurring in the department will be combined in the implementation of AB 1642, we recommend that the Department of Social Services present an overall plan to the Legislature for the three-year phase-in at the time of budget hearings. We further recommend that the plan submitted to the Legislature specify the sequence of steps necessary for counties to comply with the act.

Social Services Policy Task Force

In our *Analysis of the 1979 Budget Bill,* we indicated that the department intended to establish a task force to identify program goals and objectives during 1979–80. This policy task force, composed of eight social services and systems development specialists from the Adult and Family Services Division, produced a draft set of regulations. The draft regulations were released in August 1979 and published for comment October 9, 1979.

The proposed draft regulations are designed to address the following problems in social services programs: (1) lack of established goals and clear program objectives, (2) uncertain priorities, (3) failure to combine planning with program delivery and resource allocation and (4) lack of a cohesive program role in relation to services provided by other programs. The department advises that it views the draft regulations as an essential first step in resolving these problems and moving toward implementation of AB 1642. Although substantial portions of the draft regulations may be altered during the review process, the proposed package includes several provisions which will improve the management and delivery of the social services programs addressed. Specifically, the proposal (1) places time limits on the duration of service, (2) eliminates health-related and employment-related services from the list of mandated services, and (3) requires that service plans be developed for each client.

Legislative Review of Proposed Changes

We recommend that the Department of Social Services submit its proposed redesign of social services programs and a specific expenditure plan for its implementation as a single regulations package for the approval of the Department of Finance. We further recommend that Budget Act language be adopted requiring notification of the Legislature regarding the costs expected to result from redesign, expansion or alteration of existing social services programs.

Our analysis indicates that there are a number of problems with the department's regulations designed to alter social services programs.

Unspecified General Fund Costs. State and local cost estimates to implement the proposed regulations will be available for the first time in mid-February 1980. The regulations may reduce the demand for expenditures by eliminating funding of some current programs and by establishing plans and time limits for services. However, we have identified potential increases in county costs that may result from requirements to (1) provide additional management information, (2) increase case management and documentation activities, (3) augment staff for new service activities, and (4) achieve higher than currently required ratios of social workers to total staff. It is possible that the additional county costs will have to be reimbursed by the state under Article XIII B of the State Constitution (Proposition 4).

Reserve for Federal Requirements. No specific cost estimate or expenditure plan has been prepared for the proposed regulations. However, the budget proposes $25 million as a "reserve for federal requirements" to be used for objectives included in the proposed regulations. Sound budgeting practices require that these funds not be appropriated for unspecified purposes, as discussed earlier in this analysis.

Implementation Schedule Not Tied to Budget Process. The development of the draft regulations has been hampered by the necessity to work within three different time cycles: (1) the state budget process, (2) the federal cycle for preparation of the comprehensive annual services program plan and (3) the schedule for phase-in of AB 1642. The department advises that it intends to implement the regulations by October 1, 1980. This deadline requires regulations to be filed for public hearing by June 1980.

The department indicates that it will amend California's 1980 Comprehensive Annual Services Program plan in order to assure continued federal financial participation if the redesign is implemented prior to the beginning of federal fiscal year 1981. It also indicates that counties will receive training and orientation to help them implement the regulations, between June 1 and October 1, 1980. This schedule does not permit legislative consideration of the potential expenditures for implementation of the regulations during hearings on the 1980–81 Budget.

Changes in Statute Required. Our review of the draft regulations indicates that their implementation would require changes in existing stat-

SOCIAL SERVICES PROGRAMS—Continued

utes. For example, legislation may be required to change procedures for dealing with children who are dependents of the court and to remove health related services from the list of mandated programs.

Because the program changes proposed by the regulations will significantly alter social services programs in the state, we recommend that the Department of Finance review and approve the department's entire social services proposal prior to any program or funding changes. Because of the potential fiscal and policy impact of the proposal, we further recommend that the Legislature add the following Budget Act language in order to ensure it receives notification of any change in expected expenditures due to the redesign, expansion or alteration of existing social services programs:

". . . provided further that no funds appropriated in this item may be spent for the expansion or alteration of existing social services programs unless (1) the Legislature has been notified at least 30 days prior to the effective date of such expansion or alteration and (2) such notification includes a specific expenditure plan and detailed description of the proposed expansion or alteration."

IN-HOME SUPPORTIVE SERVICES

Program Description

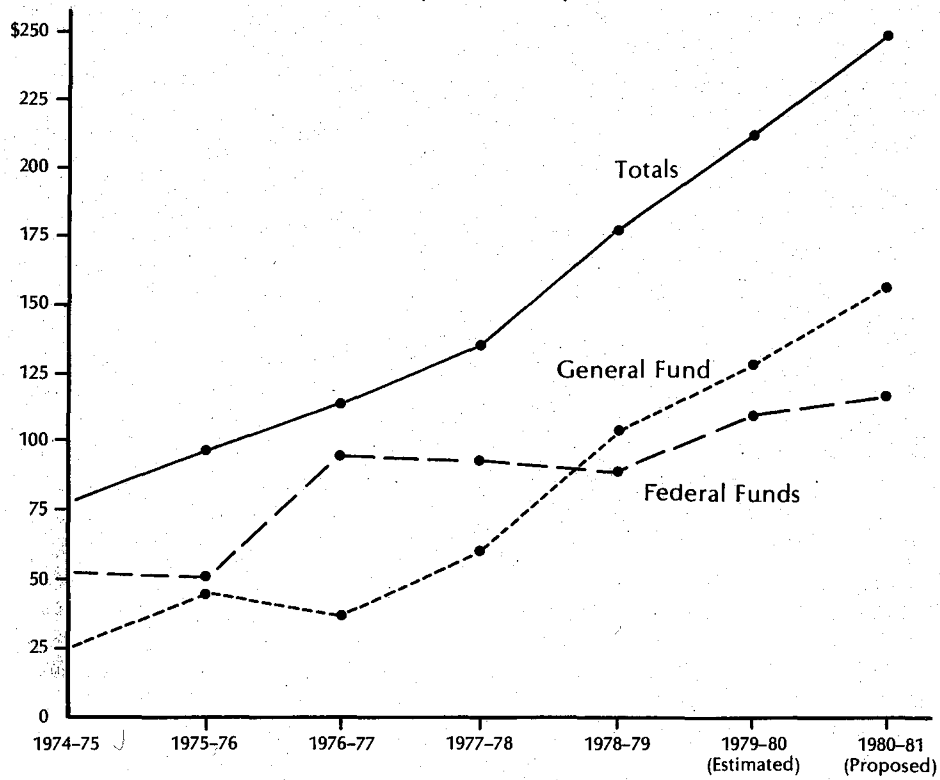
The In-Home Supportive Services (IHSS) program provides personal care, domestic and paramedical services to approximately 90,000 aged, blind and disabled individuals. County welfare departments administer this program, which is funded by the state and federal governments. Services are delivered in three ways: (1) directly by county employees, (2) by agencies under contract with the counties or (3) by providers hired directly by the recipient. Individual providers, hired directly by recipients, deliver 95 percent of all IHSS service hours. Los Angeles County accounts for 45 percent of all IHSS expenditures and service hours in California.

The state is statutorily required to provide a 25 percent match for federal Title XX funds available for IHSS. However, since fiscal year 1978–79, the state General Fund has provided a larger portion of total IHSS support than federal funds. Of the funds proposed for the budget year, 59.9 percent are state and 40.1 percent are federal. Chart 1 shows the relationship between state and federal funds spent on IHSS from 1974–75 to 1980–81.

Current Year Increase

A total of $213,915,549 was appropriated for the IHSS program in fiscal year 1979–80. This includes: (a) $209,913,276 in the 1979 Budget Act, (b) $2,290,000 appropriated by Chapter 1071, Statutes of 1979, for the implementation of paramedical services, (c) $216,000 appropriated by Chapter 1059, Statutes of 1979, for payments to parents as providers of IHSS, (d) $286,523 in additional federal funds to provide IHSS to Indochinese refugees, and (e) $1,209,750 appropriated by Chapter 463, Statutes of 1978, for provider benefits that were not used during 1978–79.

Chart 1
Expenditures for In-Home Supportive Services
General Fund, Federal Funds and Totals
1974-75 to 1980-81
(in millions)



The budget estimates that current year expenditures will total $212,944,-100. This includes (1) $209,913,276 from the 1979 Budget Act, (b) $286,523 in federal funds to provide IHSS to additional Indochinese refugees, (c) $2,655,200 to implement paramedical services authorized by Chapter 1071, Statutes of 1979, (d) $146,100 to pay parents as providers of IHSS pursuant to Chapter 1059, Statutes of 1979, and (e) an offsetting net savings in current year expenditures of $56,999.

Thus, a surplus of $971,449 is anticipated in the current year for this program, including $635,650 in unspent funds for IHSS provider benefits. The department has not yet advised the Legislature of its plans for expending these funds.

Budget Year Proposal

The budget proposes a General Fund appropriation of $149,424,493 for IHSS, which is an increase of $32,346,550, or 27.6 percent, above estimated 1979-80 expenditures. This proposed increase consists of (a) $11.1 million for the General Fund share of an anticipated 7.9 percent growth in caseload, (b) $4.2 million for statutory cost-of-living adjustments for grants which are currently at the maximum level and for other provider increases, (c) $15.4 million for minimum wage increases, and (d) $1.6 million for existing legislative and regulatory requirements.

Total program expenditures are proposed at $249,475,500 for 1980–81. This is an increase of $36,531,400, or 17.2 percent, over estimated current year expenditures and an increase of $71,878,232, or 40.5 percent, over actual 1978–79 expenditures.

Departmental Progress in Addressing Program Problems

Last year we identified three major problems in the In-Home Supportive Services program: unknown program results, unjustified program variations and uncontrolled program growth. During 1979–80 the department attempted to resolve these problems by (1) continuing the implementation of uniform, statewide program regulations adopted April 1, 1979, (2) continuing to refine a reporting format for the IHSS program which identifies costs by mode of service provision, by county, by average hours and by average cost, (3) establishing a range of allowable costs for IHSS delivered by contract providers, (4) developing regulations to implement the parent provider and paramedical services provisions of Chapter 1059, Statutes of 1979 (AB 1134) and Chapter 1071, Statutes of 1979 (AB 1940), and (5) conducting a quality control pilot study of the five counties with the largest IHSS caseloads.

These efforts are positive steps toward defining and restricting variation and uncontrolled growth in IHSS expenditures and determining the actual results of this program. However, the impact of most of them cannot be assessed at this time because they have not been in effect long enough. For example:

(1) The first quarter of participation by all counties in the cost comparison report ended September 1979, but the department will not be able to provide a report on the first period until spring 1980.

(2) The regulations implementing Chapters 1059 and 1071 were issued in January 1980 and had not been fully implemented at the time this analysis was prepared.

(3) The department has postponed, beyond the April 15, 1980 deadline, submission of the report on implementation of the April 1, 1979 regulations requested in the Supplemental Language Report of the 1979 Budget Act because data are insufficient to assess the effectiveness and impact of the regulations.

Inadequate data regarding these efforts hampers our analysis of the budget. In addition, it severely restricts the ability of the department to manage the program effectively. Our analysis indicates that management information which is available to the department is not being applied consistently to resource decisions. For example, available data regarding the number of IHSS service hours actually delivered to clients were not used by the department in its projection of the number of hours subject to minimum wage increases. Instead, a projection of hours was made which is unrelated to actual experience.

IHSS Payrolling System

Chapter 463, Statutes of 1978 (AB 3028), requires the Department of Social Services to ensure that payments for unemployment insurance, disability insurance and workers' compensation are made on behalf of individual providers. Services provided by individual providers account for 83.9 percent of annual IHSS expenditures and 68.3 percent of total annual case months. All but four counties use this mode of service provision for a portion of their caseload.

This act went into effect January 1978. The department originally planned to have the system implemented by November 1978. However, because of problems in the selection of a contractor, the department did not enter into a contract with a private vendor until September 5, 1979. The first checks were mailed by the contractor to individual providers in January 1980.

Initiation of the statewide payrolling system may lead to prompt payment of providers and more accurate expenditure and service data. However, it is too early to assess the effect of this system.

Sacramento County Versus the State of California

In the *Sacramento County v. the State of California* court case, 26 counties are challenging the state practice of reimbursing counties only for actual IHSS service costs and not for costs associated with assessment and administration. In an Interlocutory Judgment issued October 15, 1979, by the Sacramento Superior Court, county claims were upheld and an injunction was issued to prevent the reversion to the General Fund of unspent funds for IHSS from the 1976 Budget Act and subsequent budget acts. Because the case is being considered in two parts—damages and liability—and the damages portion has not been decided, the total amount necessary to reimburse counties for their assessment and administrative costs has not been determined.

Continued Growth in Expenditures

We recommend that Budget Act language be added to Item 312 to require the Department of Social Services to (1) develop and implement a plan for controlling the costs of the In-Home Supportive Services program and (2) submit the plan to the Legislature by December 15, 1980.

The proposed budget requests a 27.6 percent General Fund increase for IHSS and a 17.2 percent increase in total funds. Since 1974–75, expenditures for IHSS have grown by over 300 percent. The average annual increase in expenditures since 1974–75 has been 21.3 percent. Table 8 shows the increases in total funds for IHSS since 1974–75. The average annual increase for the 1978–79 through 1980–81 period will be $35.9 million if the proposed budget increase is approved by the Legislature.

SOCIAL SERVICES PROGRAMS—Continued

Table 8
Total Expenditures for the In-Home Supportive Services Program
1974–75 to 1980–81

	General Fund	*Percent of Total*	*Federal Funds*	*Percent of Total*	*Totals*	*Percent Increase*	*Amount Increase*
1974–75	$25,927,000	32.9%	$52,750,002	67.1%	$78,677,002	—	—
1975–76	44,953,000	46.6	51,415,152	53.4	96,368,152	22.5%	$17,691,150
1976–77	28,908,943	25.0	86,726,828	75.0	115,635,771	20.0	19,267,619
1977–78	53,647,157	39.3	82,743,379	61.7	136,390,536	18.0	20,754,765
1978–79	94,731,134	53.3	82,866,134	46.7	177,597,268	30.2	41,206,732
Estimated 1979–80	117,057,943	54.9	95,865,157	46.1	212,944,100	19.9	35,346,832
Proposed 1980–81	$149,424,493	59.9%	$100,051,007	40.1%	$249,475,500	17.2%	$36,531,400

Quality Control Pilot Study. During the past year, a departmental project has demonstrated that IHSS expenditures can be reduced through greater control over allowable costs. Specifically, a quality control pilot study of the five counties with the largest IHSS caseloads was conducted by the department in September 1978. The sample counties included 55 percent of statewide IHSS caseload and 65 percent of all statewide expenditures.

The primary objective of the pilot study was to test the feasibility of applying quality control techniques used in the AFDC, Food Stamp and SSI/SSP programs to IHSS. The purpose of quality control reviews is to determine, through review of case documentation and contact with a sample of recipients, the percentage of total caseload and expenditures that are subject to specific errors. In the IHSS review, as in AFDC, the error rates tested were (1) payments to persons ineligible for service, (2) overpayments and (3) underpayments.

Findings of the Quality Control Pilot Study. The report on the pilot study states that the error rate attributable to payments to ineligibles far exceeded the comparable rate for the AFDC program during the same period. Table 9 compares the three types of errors as percentages of total caseload and total expenditures. Because the AFDC error rates are taken from a standard six-month review period, the two sets of data are not directly comparable. Nevertheless, this table illustrates the magnitude of the error rates discovered by the IHSS pilot study.

Table 9
Error Rates
IHSS Quality Control Pilot and AFDC
October 1978 to March 1979

	Payments to Ineligibles		*Overpayments*		*Underpayments*	
	Percent of cases	*Percent of payments*	*Percent of cases*	*Percent of payments*	*Percent of cases*	*Percent of payments*
AFDC	3.1	2.5	10.4	3.0	3.5	0.5
IHSS Pilot Study Sample	10.6	15.8	10.6	3.2	3.4	0.6

If the percentage of error in payments identified by the quality control pilot study is an indication of program-wide error, the cost to the General

Fund for payments to ineligibles and overpayments may have been as high as $17.97 million in 1978–79. Table 10 shows the results of applying these error rates to total program expenditures for the past, current, and budget years. Underpayments are not included in the table because the pilot study's findings did not include a significant amount of this type of error.

Table 10
Possible General Fund Cost of Error Rates Found by the IHSS Quality Control Pilot 1978–79 to 1980–81 (in millions)

	Payments Ineligibles	*Overpayments*	*Totals*
Actual 1978–79	$14.96	$3.01	$17.97
Estimated 1979–80	18.49	3.72	22.21
Proposed 1980–81	23.59	4.75	28.34
Totals	$57.04	$11.48	$68.52

Applying the sample error rate from the pilot study in 1978–79 to overall program expenditures is *not* conclusive evidence that over $68 million from the General Fund will have been spent in error in the three years ending with 1980–81. However, the potential for significant inappropriate expenditures warrants close attention by the Legislature. This is underscored by the fact that, while the Governor's Budget proposes an increase of $32.35 million for IHSS, expenditures made in error may be as high as $28.34 million in 1980–81.

Cost Control Plan Needed. Since the Quality Control Pilot Study was conducted, the department has issued uniform program regulations that may reduce the error rates in IHSS. However, the impact of these regulations remained uncertain at the time this analysis was prepared.

The Governor vetoed 1979 Budget Act language requiring the department to conduct a cost containment project for all social services programs and to report the results during the 1980–81 budget hearings. He maintained that the Social Services Policy Task Force and the implementation of Chapter 1235, Statutes of 1978 (AB 1642), would accomplish the objectives of the vetoed Budget Act language.

However, during 1979–80, these two efforts have not examined the IHSS program. Consequently, it is clear that the project called for by the Legislature in the 1979 Budget Act is still needed. If program growth continues as it has in the past, total expenditures for IHSS will exceed $300 million in 1982–83. The Department of Social Services is in the best position to identify the steps necessary to contain costs for this program.

For this reason, we recommend that the following Budget Act language be added to Item 312 requiring the Department of Social Services to develop and implement a plan for containing the costs of the In-Home Supportive Services program:

"Provided further that the Department of Social Services prepare and submit to the Legislature by December 15, 1980, a plan for controlling the costs of the In-Home Supportive Services program, including (a) criteria for termination of service, (b) appropriate levels of compensation for providers of in-home supportive services, (c) a schedule for quality con-

SOCIAL SERVICES PROGRAMS—Continued

trol reviews and plans for reducing the amount of General Fund money spent in error, and (d) identification of steps leading to control of county wage setting procedures for IHSS providers."

Minimum Wage Increases

We recommend funds overbudgeted for minimum wage increases to individual providers of in-home supportive services be deleted, for a General Fund savings of $2,899,986.

Background. Minimum wage increases, effective January 1, 1980, and January 1, 1981, will increase costs for the delivery of in-home supportive services by individuals hired directly by recipients and through purchase of service agreements with contract providers.

Budget Proposal. The budget proposes $20,848,300 from the General Fund to provide minimum wage increases to individual and contract providers. This includes $12,829,700 for full-year costs of the January 1, 1980 increase from $2.90 per hour to $3.10 per hour and $8,018,600 for six-month costs of the January 1, 1981, increase to $3.25 per hour.

The amount budgeted for the two minimum wage increases in 1980–81 exceeds the actual amount required for this purpose because the department inappropriately estimated the number of service hours affected by the minimum wage. The department's estimate was derived by dividing total estimated 1980–81 expenditures by $2.90, the minimum wage prior to January 1, 1980. This method overstates the total number of service hours because (1) it includes service hours paid at flat monthly rates rather than by the hour and (2) it includes hours paid at rates higher than the minimum wage.

Using information from the IHSS cost comparison report regarding service hours delivered by individual providers in 1978–79, we have estimated an alternative number of service hours. Table 11 displays the two estimates of service hours which will be affected by the increases in the minimum wage in the 1980–81 budget year.

Table 11
IHSS Service Hours Affected by Minimum Wage Increases
Individual Providers
1980–81

	Based on Projected Expenditures Divided by $2.90	*Projected from Actual 1978–79 Service Hours Paid at an Hourly Rate*	*Difference*
Individual Provider			
Severely Impaired Clients	20,834,163	17,752,983	3,081,180
Nonseverely Impaired Clients	37,518,550	31,676,673	5,841,877

A more accurate calculation of the amount which should be included in the budget for minimum wage increases is derived by applying the amounts of the minimum wage increases to the number of service hours projected from the 1978–79 cost comparison report. Based on this methodology, a total of $17,948,314 is needed to pay the minimum wage to individual and contract providers during 1980–81. The difference between this amount and the amount proposed in the budget is $2,899,986. We therefore recommend a reduction of $2,899,986 to delete funds overbudgeted for minimum wage increases.

Payments at the Statutory Maximum

We recommend that legislation be enacted allowing the Legislature to adjust maximum monthly payments to IHSS recipients by a cost-of-living factor determined through the annual budget process, rather than automatically through statute.

Background. Maximum monthly dollar grants awarded to IHSS recipients are limited by Sections 12304 and 12201 of the Welfare and Institutions Code. Two categories of recipients are identified for purposes of determining the maximum monthly grant level: (a) IHSS recipients who are authorized to receive at least 20 hours per month of personal care, ambulation, paramedical, and other specified services, and (b) recipients who receive less than 20 hours of the specified services.

Existing law requires that the maximum amount of monthly payments to IHSS recipients be adjusted annually to provide cost-of-living increases identical to those statutorily authorized for SSI/SSP recipients. The cost-of-living adjustment is calculated as an average of the percentage changes in the separate consumer price indices for all items for Los Angeles and San Francisco. Based on this formula the 1980–81 estimated percentage increase is 14.65 percent. Table 12 shows the maximum monthly grant rates for 1979–80 and 1980–81 using this estimated rate of increase.

Table 12
Maximum Monthly IHSS Grants
1979–80 and 1980–81

	Estimated 1979–80	*Proposed 1980–81*	*Percent Change*
Recipients receiving 20 or more hours of specified services per month	$664	$761 [1]	14.65%
Other recipients	460	527 [1]	14.65

[1] These amounts are rounded to the nearest dollar and are estimates as of January 25, 1980.

Application of the Increased Monthly Grant. The maximum allowable monthly grant is adjusted on July 1 of each year based on the statutory formula. Section 12304 of the Welfare and Institutions Code stipulates that this increase should not be construed to be a guaranteed increase in an individual recipient's grant amount. However, the budget assumes that all case months being paid at the statutory maximum in the current year will be paid at the higher statutory maximum in 1980–81.

Increasing the maximum allowable monthly grant level affects both the service hours provided to recipients and the amount paid to providers. Recipients of IHSS may receive hourly or flat monthly payments which they use to reimburse their providers. If a recipient's provider is paid on an hourly basis, an increase in the statutory maximum monthly grant will increase the number of hours a recipient may receive during each month. For cases paid at the maximum allowable flat monthly rate, instead of by the hour, an increase in the statutory maximum payment results in an increase in the amount paid the provider.

SOCIAL SERVICES PROGRAMS—Continued

Lack of Flexibility in Setting Spending Priorities

The Legislative Counsel has advised us that "the Legislature is not required to make available a certain amount of funds to carry out county plans for in-home supportive services even though county awards may escalate with increases in the cost-of-living pursuant to statutory formulas". In practice, however, there is tremendous pressure for counties to provide monthly payments at the maximum level permitted by law. The budget proposes $4.4 million from the General Fund to provide a 14.65 percent cost-of-living adjustment for IHSS payments to individuals who are already at the maximum.

Because this increase partially accounts for the continued growth in expenditures of this program, amending current statute to bring the level of cost-of-living adjustments within the legislative budget process will give the Legislature more flexibility in (1) responding to high priorities when resources are scarce and (2) complying with the provisions of Article XIII B (Proposition 4) limiting state appropriations. We discuss several alternate methods for calculating cost-of-living increases in our analysis of the AFDC and SSI/SSP programs (Items 309 and 310).

We therefore recommend that legislation be enacted allowing the Legislature to adjust maximum monthly payments to In-Home Supportive Services recipients by a cost-of-living factor determined through the annual budget process rather than automatically through statute.

OTHER COUNTY SOCIAL SERVICES

Proposed Budget

The budget proposes a total amount of $199,444,340 for Other County Social Services in 1980–81. This is an increase of $10,383,060, or 5.2 percent, over 1979–80. This increase consists of $1,718,751 in county funds and $8,664,309 in additional federal funds.

Program Definition

In our *Analysis of the 1979 Budget Bill* we recommended the Legislature consider enacting legislation to more clearly define county-administered social services funded through Title XX. During the current year, the Department of Social Services is proposing regulations to redesign the Other County Social Services (OCSS) program to replace the nine mandated and fourteen optional services with three programs, consisting of eight services. The proposed program alignment includes (1) information and referral, (2) adult social services programs and (3) family and children's services programs. The department has not yet determined what effect this program redesign will have on the delivery of existing social services. The Department of Finance and the Legislature should consider the program changes and related costs of this program redesign as a single package, as discussed earlier in this analysis.

24-Hour Emergency Response System

We recommend that Item 312 be reduced by $5 million from the General Fund returning the 24-hour emergency response system to a funding pattern comparable to other components of the Other County Social Services program.

Budget Proposal. The budget proposes $10,572,426 for the provision of a statewide 24-hour emergency response system for prevention of child abuse and neglect, of which $5 million is from the General Fund, $2,929,-319 is from federal funds, and $2,643,107 is from county funds. This represents an increase of $3,905,759 ($2,929,319 in federal funds and $976,440 in county funds), or 58 percent, over estimated 1979–80 expenditures.

Background. State funds for the 24-hour emergency response system were first made available in the current year. The 1979 Budget Act included a $5 million General Fund appropriation to augment existing local child protective services supported by state, county and federal funds from Title XX and Title IV-B of the Social Security Act. The funds were to be matched by $1,666,667 in county funds. The primary objectives of the new appropriation were to provide and publicize toll-free emergency telephone lines and enable prompt social worker response to reports of child abuse and neglect.

The Supplemental Report of the 1979 Budget Act requested the Department of Social Services to submit (1) a plan for the implementation of the 24-hour emergency response system by September 15, 1979, and (2) a report of the preliminary program impact resulting from this augmentation by April 1, 1980.

System Implementation. In order to participate in this program, counties were required to provide a 25 percent match for available General Fund dollars. Each participating county was also required to submit a plan detailing its existing child protection program and its proposed use of 24-hour response system funds for providing (1) the basic response system and (2) backup services, which may include emergency caretakers and homemakers, followup treatment and emergency shelter.

According to a December 30, 1979, update of information provided in the department's September 15, 1979 plan, 43 county plans had been approved, 4 counties had been granted conditional approval, and 11 counties had either not submitted their plans, declined the offer of additional state funding or had their plans rejected by the department.

Table 13 displays the planned use of 1979–80 emergency response funds in the six counties receiving the largest allocations, and in other counties with approved and conditionally approved plans. The table shows that $3,856,425, or 77 percent, of the original $5 million General Fund appropriation is planned to be used by counties for the basic response system. The remainder is either planned to be used for back-up services ($926,-343), or is unallocated ($217,232).

SOCIAL SERVICES PROGRAMS—Continued

Table 13
Selected Counties Projected Expenditures for the 24-Hour Emergency Response System by Expected Use 1979–80 [a]

	Basic System			*Back-Up Services*			
	State	*County*	*Total*	*State*	*County*	*Total*	*Totals*
Alameda	$225,023	$75,001	$300,004	—	—	—	$300,004
Contra Costa........	105,618	35,201	140,819	$32,250	$10,750	$43,000	183,819
Los Angeles	844,056	281,352	1,125,408	685,586	228,528	914,114	2,039,522
Orange........	344,872	114,957	459,829	74,250	24,750	99,000	558,829
San Diego ..	377,817	125,938	503,755	—	—	—	503,755
Santa Clara	291,072	97,024	388,096	—	—	—	388,096
Other counties	1,667,967	558,391	2,226,378	134,257	44,753	179,010	2,405,388
Totals	$3,856,425 [b]	$1,287,864	$5,144,289	$926,343 [b]	$308,781	$1,235,124	$6,379,413

[a] Source: Department of Social Services, December 1979

[b] Because some counties did not submit plans and therefore did not receive allocations, projected expenditures of General Fund 24-hour emergency response system funds for the basic system and for back-up services do not total to $5 million. Unallocated funds total $217,232.

Our analysis indicates that continued General Fund support of this program is inappropriate.

First, *there is no specific statutory authority for this program.* The regulations developed by the department for implementing this response system cite Sections 10553 and 16502 of the Welfare and Institutions Code as the department's statutory authority. These sections, however, do not address a 24-hour response system, or an expanded state role in the other county social services program. Instead, they establish the Director of the Department of Social Services' authority to promulgate regulations for the administration of social services programs and establish the overall child protective services program in California.

Second, *the department's reporting system cannot yet produce information on the number of referrals, dispensation of cases, actual prevention of family separations, or actual expenditures.* Therefore, no analytical basis currently exists to determine the effectiveness of funds spent on the 24-hour response system in 1979–80.

Third, *the allocation method is deficient.* According to the department, the allocation method used in 1979–80 probably will be used in 1980–81. This allocation method does not take into account funds available from other sources in considering the counties' need for 24-hour emergency funds. For example, in 1979–80, there was approximately *$120 million available to the counties for programs addressing child abuse, neglect and protection,* such as the 24-hour response system ($4.1 million through Title IV-B and $116 million through Title XX). If an improved response system is identified by counties as an important need, counties should be required to use available resources for that service, as they are for other aspects of the Other County Social Services program.

Fourth, *new federal funds should be used to replace state funds for this activity.* Both versions of HR 3434 propose to amend Title XX and Title IV-B of the Social Security Act and increase funds available to the states for children's protective and welfare services. If this bill is enacted, the department anticipates an $80 million increase in federal funds for other county social services, of which children's protective services are a major part. Of the $80 million increase, the budget proposes to use $2,929,319 for the 24-hour response system. The 24-hour emergency response system should appropriately be (a) included in the expanded children's services proposed to meet the objectives of HR 3434 and (b) supported entirely on the basis of 75 percent federal/25 percent county funds as are other components of the Other County Social Services program.

For these reasons, we recommend that General Fund support for the 24-hour emergency response system be deleted. Adoption of this recommendation would return the response system to a funding pattern comparable to other social services programs and result in a General Fund savings of $5 million. This recommendation would leave $5,572,426 budgeted for the 24-hour emergency response system. This amount would be sufficient to continue the basic system. If counties choose to provide back-up services, it is appropriate that funds included in the budget for other county social services and child welfare services be used in lieu of continued General Fund support. As noted earlier, over $120 million is available to the counties for programs addressing child abuse, neglect and protection, allowing counties ample flexibility to fund back-up services.

OTHER SOCIAL SERVICE ACTIVITIES

Community Care Licensing

Community care facilities provide nonmedical residential care, day care, or homefinding services for children and adults. The Community Care Facilities Act of 1973 (Health and Safety Code, Section 1500 et. seq.) established minimum standards of care and services in community care facilities and for the licensing and evaluation of the facilities. The Department of Social Services develops regulations, conducts facilities evaluation, and contracts with counties to license and evaluate community care facilities.

In 1979–80, 48 counties contracted with the state to license approximately 70 percent of all community care facilities in California. About 90 percent of the county-licensed facilities are family day care or foster homes for children. The Department of Social Services is responsible for assuring the performance of county licensing agencies, and it also directly licenses about 26 percent of the state's community care facilities. Expenditures for direct state facilities evaluation are included in Item 309, Departmental Support.

Current Year Deficit. The department estimates that current year expenditures for community care licensing will exceed appropriations by $275,224. Current year expenditures for county-administered community care licensing will exceed the amount budgeted in the 1979 Budget Act by $378,724, or 2.8 percent. This is the result of (1) increased expenditures of $196,032 to cover higher-than-anticipated cost-of-living salary increases for county staff, (2) $68,292 for the implementation of several regulations during 1979–80, and (3) a net increase of $114,400 to implement family day care registration pilot projects authorized by Chapter 1063, Statutes of 1978 (AB 1368). Chapter 1063 appropriated $112,000 from the General Fund and transferred $8,500 originally budgeted for county licensing in the local assistance budget item to the departmental support budget item.

SOCIAL SERVICES PROGRAMS—Continued

The net effect of these adjustments is a current deficit of $275,224. The department has not yet advised the Legislature how it intends to fund the community care licensing deficit in the current year.

Budget Year Increase. The budget proposes $16,857,400 from the General Fund to support facilities evaluation and licensing by counties under contract with the Department of Social Services. This is an increase of $3,302,908, or 24.4 percent, over estimated 1979–80 expenditures.

This proposed $3.3 million increase is composed of (a) $1,537,600 for cost-of-living increases to county licensing staff, (b) $514,808 for the implementation of new regulations, including the family day care registration pilot project, (c) $770,500 for an anticipated 6.4 percent increase in the number of licensed facilities and (d) $480,000 for increased grants to counties based on the implementation of a revised cost allocation formula.

Revised Allocation Procedure

We withhold recommendation on a proposed community care licensing increase of $523,200 pending receipt of (a) the Management Analysis Bureau's workload study and (b) an explanation of how the study was used to determine the proposed county allocations.

Current Allocation Method. The existing procedure for allocating funds to counties which perform facilities evaluation is based on an estimate of each county's annual costs for fiscal year 1978–79, adjusted for (a) estimated increases in the number of facilities licensed, (b) costs of special requirements and (c) a 6.7 percent cost-of-living increase. This procedure perpetuates existing variations in licensing costs among counties. For example, 1979–80 allocations to the 48 contracting counties allowed a variation in average cost per license from $49 to $1,037, and a variation in hours spent per license from 3 to 42. Table 14 displays the variation permitted under the current allocation procedure. The counties selected are the five largest and five smallest counties in the state.

Table 14
Facilities Evaluation
Estimated Costs per License
Selected Counties
Based on 1979–80 Allocation

	Average Monthly Number of Facilities Licensed July–Dec. 1978	*1979–80 Allocation*	*Estimated 1979–80 Average Cost per License*[a]	*Estimated Number of Hours Spent per License*
Alameda	1,931	$969,187	$428.77	14.5
Almador	35	5,749	116.38	7.8
Contra Costa	424	352,487	1,036.80	42.8
Del Norte	76	6,934	88.82	5.1
Los Angeles	7,361	3,158,174	433.88	19.1
Mariposa	12	6,393	494.16	29.0
Modoc	18	1,339	48.90	3.0
San Diego	3,129	1,103,886	309.34	12.1
Santa Clara	2,676	1,498,886	502.64	23.6
Tuolumne	42	$7,840	249.20	15.1

[a] This column was derived by multiplying the estimated number of hours spent per license in 1979–80 by the estimated cost per hour in 1979–80.

Proposed Allocation Method. The proposed allocation method will use workload standards developed by the department's Management Analysis Bureau in a study of *state* licensing staff. The department advises that the revised allocation formula, which it intends to use on a temporary basis, is based on annual workload standards of 150 licensed day care facilities or 75 licensed residential care facilities per evaluator. We have been unable to verify the appropriateness of the 150 and 75 caseload assignments because the Management Analysis Bureau study has not been released. Without reviewing this workload study, we have no analytical basis on which to evaluate the revised allocation method and the increased costs associated with it.

Pending receipt of (a) the Management Analysis Bureau's study and (b) an explanation of how the study was used to determine the proposed allocations, we withhold recommendation on the proposed increase of $523,200 ($480,000 for additional evaluation costs and $43,200 for a related 9 percent cost-of-living adjustment).

Adoptions

The Department of Social Services administers a statewide program of services to parents who wish to place children for adoption and to persons who wish to adopt. Adoptive services are provided through three state district offices, 28 county adoption agencies and a variety of private agencies. There are three major adoption programs: (1) relinquishment adoptions, the freeing of a child from parental custody and placement in an adoptive home; (2) independent adoptions, cases in which the natural parents and the adoptive parents agree on placement without extensive assistance from an adoption agency; and (3) intercountry adoptions involving children from countries other than the United States.

The adoptions program is primarily supported from the General Fund with the exception of a maximum fee of $500 collected from adoptive parents. The General Fund supports case work provided by the state and by county agencies, and reimburses private adoption agencies for placement of hard-to-place children.

Current-Year Deficiency. The total expected adoptions deficit in 1979–80 is $1,701,870, consisting of $1,443,500 for increased caseload, $272,070 for the higher cost-of-living adjustment, $8,000 for increased reimbursements to private adoption agencies as a result of the enactment of Chapter 489, Statutes of 1979 (AB 296), and an offsetting increase in fees of $21,700.

Estimated expenditures for the adoptions program exceed the amount budgeted in the 1979–80 Budget Act for two major reasons. First, projections of current year caseload estimates have been revised to show growth in adoptive placements. Second, counties were allowed to increase the salaries of their employees by a 7.4 percent, which is higher than the 6.0 percent increase originally budgeted. This resulted from a court ruling on county employee collective bargaining.

The department has not yet advised the Legislature how it intends to

SOCIAL SERVICES PROGRAMS—Continued

fund the proposed adoptions deficit in the current year.

Budget Proposal. The budget proposes $17,584,043 to support the state adoptions programs in 1980–81, which is an increase of $2,312,343, or 15.1 percent, over estimated current year expenditures. This increase consists of (a) $773,110 for a 5.4 percent increase in the number of placements, (b) $64,900 for continuation of 1979–80 cost-of-living increases for the additional caseload, (c) $1,469,043 for 1980–81 cost-of-living increases for county staff, (d) an offsetting increase in fees of $2,700, and (e) $8,000 for reimbursements to private adoption agencies for placing "hard to place" children.

No Caseload Increase Expected

We recommend funds budgeted for a 5.4 percent growth in the number of adoptive placements be deleted, for a General Fund savings of $982,588.

Background. The number of adoptive placements is controlled by the availability of resources, the time limits placed on various phases of the adoption process, and the number of available adoptive children. For example, the final outcome of federal court rulings on Medi-Cal funded abortions may ultimately affect the number of children available for adoption.

The state is required by statute to reimburse counties for delivering adoption services. The state, however, may specify allowable county costs. The Legislature is not required to increase funding for the adoptions program when caseload increases as it must under entitlement programs.

No Increase in Adoptive Placements. The budget estimates adoptive placements will increase during 1980–81 by 5.4 percent over 1979–80, based on the assumption that the number of placements will grow at a steady rate throughout 1979–80 and 1980–81. Our analysis of the number of adoptive placements since 1974–75 indicates that there have been erratic increases and declines in the number of adoptive placements.

Chart 2 displays the trend in adoptive placements since 1974–75. The 1979–80 and 1980–81 projections of the Department of Social Services and the Legislative Analyst are also shown. This chart illustrates the cyclical nature of adoptive placements. In all five fiscal years shown, the fourth quarter exhibited a dramatic increase in placements. However, the fourth quarter increases have not reversed an overall decline in the number of adoptive placements since 1974–75. The data shown on Chart 2 do not support the conclusion that the number of adoptive placements will increase in a straight line growth trend in 1980–81 as proposed by the department. Based on the data for the 1974–75 through 1978–79 period, we conclude that the number of adoptive placements will remain the same or decrease during 1980–81. Table 15 shows the annual placement totals for the same period.

Because data provided by the department do not support an expected increase in the number of adoptive placements, we recommend funds budgeted for a 5.4 percent caseload increase be deleted, and instead recommend that funds be budgeted at the caseload level justified by our analysis. This will result in a General Fund savings of $982,588. This

Chart 2
Total Adoption Placements By Quarter 1974–75 to 1980–81

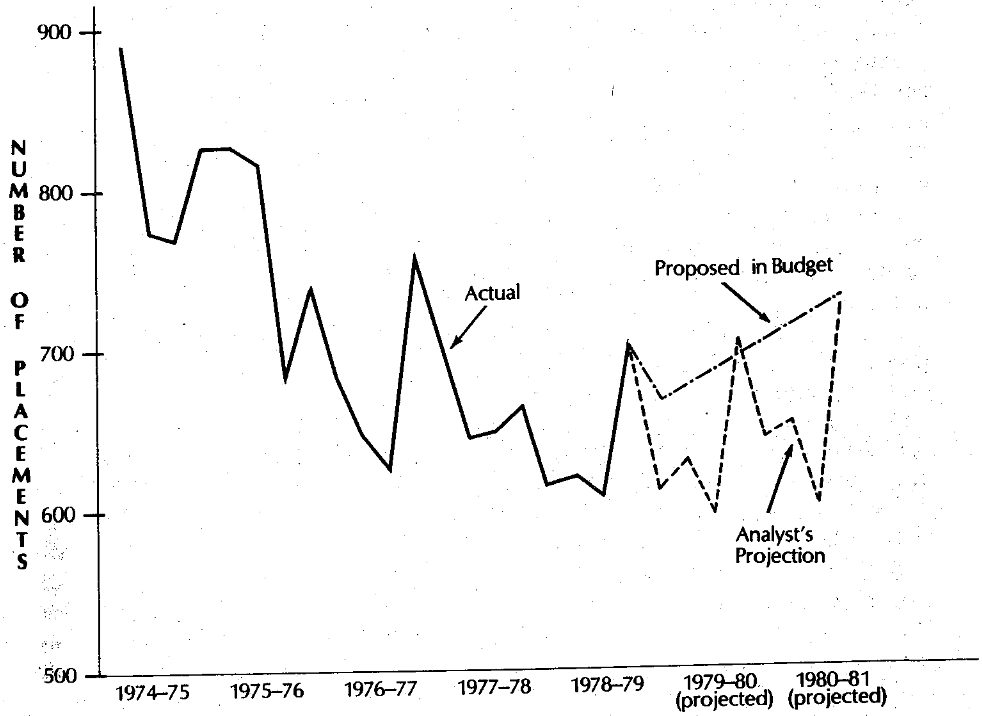


Table 15
Number of Annual Adoption Placements
1974–75 to 1980–81

		Total Annual Adoption Placements
1974–75		3,257
1975–76		3,071
1976–77		2,709
1977–78		2,396
1978–79		2,545
1979–80	(Department of Social Services)	2,715
	(Legislative Analyst)	2,550
1980–81	(Department of Social Services)	2,862
	(Legislative Analyst)	2,703

amount consists of two parts: (a) a reduction of $836,148 in basic program costs arrived at by applying our estimate of the number of placements to the department's unit cost of $5,263 per placement, and (b) a reduction

SOCIAL SERVICES PROGRAMS—Continued

of $146,440 in funds budgeted for 1979–80 and 1980–81 cost-of-living increases for the unsubstantiated caseload growth.

Rape Victim Counseling Centers—Additional Funds Not Needed

We recommend that the department implement a uniform contract period for rape victim counseling centers that corresponds with the state fiscal year, for a General Fund savings in the budget year of $135,050.

Background. Chapter 1312, Statutes of 1978, appropriated $100,000 for the 1978–79 fiscal year to support local rape victim counseling centers and to encourage the establishment of new centers. The Legislature appropriated an additional $200,000 in Item 288.1 of the Budget Act to continue the program in 1979–80.

Delayed Implementation of Item 288.1. The department advises that it will use the $200,000 Budget Act appropriation to provide grants to 36 centers in the current year. Of the 36 centers, 20 are centers which did not receive grants in 1978–79.

Because of a delay in processing proposals and negotiating grant agreements with the centers, the department advises that the 20 new centers will not begin operation until February 1, 1980. The 16 continuing centers will begin their second year of funding in late March 1980. As a result of this delay, the department anticipates that only $76,092 of the $200,000 appropriation will actually be spent during 1979–80. The remaining $123,908 will be encumbered in 1979–80 but will actually be used to continue the centers through a portion of the 1980–81 fiscal year.

Budget Proposal. The budget proposes $218,000 from the General Fund to continue funding for the centers for an additional 12 months. Because the current year contract cycle for this program will not end until January 31, 1981 for the 20 new centers and March 31, 1981 for the 16 continuing centers, the budget needs to appropriate funds for only five and three months respectively in order to continue all centers through the end of fiscal year 1980–81. The amount required to fund the existing 36 centers through the end of fiscal year 1980–81 with a 9 percent cost of living adjustment is $82,950. We therefore recommend a General Fund reduction of $135,050. In order to prevent this problem from recurring in the future, we further recommend that the department implement a uniform contract period which corresponds with the state fiscal year.

Licensed Maternity Care Homes—Budget Inclusion Needed

We recommend that (1) legislation be enacted to appropriate funds for this program in the annual budget process and (2) Budget Act language be added to appropriate $2,112,000 in lieu of Section 16151 of the Welfare and Institutions Code, for a General Fund savings of $81,400.

Legislative History. Chapter 1190, Statutes of 1977, the Pregnancy Freedom of Choice Act, established the Licensed Maternity Care Homes program. This act is designed to provide pregnant unmarried women, under the age of 21, the choice between interrupted pregnancy and full-term pregnancy by providing counseling and residential treatment services through licensed, nonprofit maternity homes. The act appropriated

$1.2 million for anticipated half-year costs in 1977–78. The statute further provided for a $2.4 million annual continuing appropriation to carry out the provisions of this program.

Program Administration. The department executed its first set of contracts with nine licensed maternity care homes in September 1978. The contracts stipulate the number of individuals the homes expect to serve and the monthly rate the state will pay for each individual residing in the homes.

Monthly Rates. The enabling legislation established a monthly rate of $965 and provided that the department could increase the rate by as much as 10 percent each July 1. The 1979–80 rate increase allowed a maximum monthly payment of $1,062 and the 1980–81 rate increase will allow a maximum monthly payment of $1,168. In 1980–81, three of the nine contractors, serving approximately 23 percent of the caseload, will not charge the maximum rate.

Budget Proposal. The budget indicates that the department will spend $2,193,400 in funds continuously appropriated by the Welfare and Institutions Code for the licensed materntiy care home program in 1980–81. This is an increase of $214,700 or 10.85 percent over current year contracted expenditures. This increase is due to a 10.85 percent cost-of-living adjustment.

Our analysis indicates that the Legislature would have (1) a greater degree of program review and fiscal control and (2) more budgetary flexibility if legislation was enacted to fund this program in the annual budget process, rather than through a continuous statutory appropriation.

Expenditures will Surpass Appropriation. Each year, the amount spent on maternity care programs increases as a result of the 10 percent rate increase authorized by the statute. Table 16 displays alternative expenditure trends for 1979–80 through 1982–83 based on four different assumptions: 1) increasing each contractor's rate by 10 percent per year, (2) increasing the proposed 1980–81 total funding level by 10 percent annually, (3) increasing the 1979–80 contract amount by 10 percent annually, and (4) increasing estimated expenditures by 10 percent annually. Regardless of the methodology employed, Table 16 indicates resource requirements for this program will exceed the statutory appropriation by 1982–83.

Table 16
Licensed Maternity Care Homes
Alternative Expenditure Trends
1979–80 to 1982–83

Assumptions[a]	*Estimated 1979–80*	*Proposed 1980–81*	*Projected 1981–82*	*Projected 1982–83*
1. Contractor's rates and caseloads ..	$1,978,719	$2,070,499	$2,277,548	$2,505,303
2. Governor's 1980–81 Budget	1,978,719	2,193,400	2,412,740	—
3. 1979–80 Contract amounts	1,978,719	2,176,590	2,394,249	2,633,674
4. 1979–80 Estimated expenditures ..	1,850,000	2,112,000	2,323,200	2,555,520

[a] Each of the assumptions are increased by 10 percent annually.

Because (1) it is likely that this program will reach its funding limit in

SOCIAL SERVICES PROGRAMS—Continued

the next year or two, and (2) the budget process allows the Legislature the greatest degree of flexibility for assessing need and determining spending priorities, we recommend that legislation be enacted to include funding for this program in the annual budget process.

Budget Act Language Needed. The budget indicates that the department will spend $2,193,400 for this program. Because this amount is less than that appropriated in Section 16151 of the Welfare and Institutions Code (Chapter 1190, Statutes of 1977), Legislative Counsel advises that the Budget Act should include language making an appropriation in the Budget Act "in lieu of statutory appropriations."

Overbudgeting for 1980–81. The total expenditure proposed for this program in the 1980–81 budget, $2,193,400, was derived by applying a 10.85 percent price increase directly to the total 1979–80 contract amount. This methodology overlooks (1) the statutory requirement that price increases be applied to monthly rates per client and not to the total expenditure level, (2) homes serving 23 percent of the caseload will increase their rates by less than 10 percent in 1980–81, (3) total expenditures in 1978–79 were less than the total contract amount, and (4) total expenditures in 1979–80 are estimated to be less than the total contracted amount for the current year.

Based on the current, stable caseloads of contractors, we estimate program requirements of $2,070,499 in the budget year. Alternatively, the highest reasonable estimate of program expenditures in 1980–81 is $2,112,000, based on estimated current year expenditures.

We recommend that language be added to Item 312 to appropriate $2,112,000 for the Licensed Maternity Care Home program in lieu of funds appropriated by Section 16151 of the Welfare and Institutions Code. The adoption of the following language will result in a General Fund savings in 1980–81 of $81,400:

"Provided further that $2,112,000 appropriated for the Licensed Maternity Care Home program is made in lieu of Section 16151 of the Welfare and Institutions Code;"

Social Services for Indochinese Refugees

The Governor's Budget proposes $29,039,600 in federal funds for social services to Indochinese refugees. This is an increase of $10,380,300 or 66.3 percent over estimated current year expenditures. The funds will be used to continue contracts with private agencies providing social services, job placement, and training in English as a second language ($20,575,500) and to support social services provided to refugees by county welfare departments ($8,464,100).

Continued Federal Funding. The Indochinese Refugee Assistance Program (IRAP) provides federal funds to states and directly to providers for cash assistance, medical assistance and social services to refugees. The Cambodian Relief Act (PL 96-110) assured 100 percent federal funding for IRAP until September 30, 1981.

Program Growth. In 1978–79, the Department of Social Services had contractual agreements with approximately 20 private agencies for IRAP.

During 1979–80 the number increased to over 40. In order to administer the contracts and perform other functions related to IRAP, the department has requested 16.5 new positions which are discussed in Item 309 of our analysis.

WIN Social Services

The budget proposes $635,500 from the General Fund to provide child care costs for participants in the Work Incentive (WIN) program. This is an increase of $226,200, or 55.2 percent, over 1979–80 expenditures for this program. The increase includes: (1) $70,154 to provide a 10 percent state match for a special welfare reform pilot in Long Beach and (2) $156,046 for caseload growth and cost-of-living increases.

Total proposed funds for WIN ($19,725,400) include (1) $635,500 from the General Fund for child care, (2) $5,719,300 in federal funds for child care and (3) $12,033,500 in federal funds and $1,337,100 in county funds for the cost of administering WIN separate administrative units (SAUs). WIN SAUs are administered by county welfare departments to provide social services to AFDC recipients who register and participate in employment or training through the WIN program.

Demonstration Programs

The budget proposes $3,511,905 from the General Fund for demonstration programs, which is a decrease of $132,846, or 3.6 percent, from 1979–80 estimated expenditures. The net decrease consists of a decrease of $1,630,391 resulting from project terminations offset by an increase of $1,497,545 for three remaining projects. The total amount proposed for demonstration programs is $3,880,998, including $100,000 in county funds and $269,093 in federal funds.

Four projects will be funded through three demonstration programs. First, an IHSS project will receive $118,265 for a third year to develop a model for making "equitable" needs assessments. Second, Multipurpose Senior Services Project funds not spent during 1979–80 ($1,493,640) will be carried forward for a third year. This project is discussed in our analysis of Item 35. Third, projects in San Mateo and Shasta counties authorized by the Family Protection Act (Chapter 21, Statutes of 1977) will be funded at $1.9 million including $125,000 for state administration costs. These projects will be completed on June 30, 1981.

Department of Social Services

COUNTY ADMINISTRATION OF WELFARE PROGRAMS

Item 313 from the General Fund — Budget p. HW 152

Requested 1980–81	$101,146,100
Estimated 1979–80	95,397,811
Actual 1978–79	187,714,891
Requested increase $5,748,289 (+6.0 percent)	
Total recommended reduction	$20,909,371

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Administrative Costs for Cash Assistance Programs. Recommend that federal funds in item 313 be increased by $6,900,700 and that federal funds in Item 311 (special adult programs) be reduced by a similar amount. 940
2. *Fiscal Sanctions for High Error Rates. Reduce by $20,909,371.* Recommend: 941
   a. Reduction of $20,909,371 from the General Fund to recover state funds misspent by counties with error rates above 4 percent for the quality control period October 1978–March 1979.
   b. The reduction of $20,909,371 be scheduled in Item 313 under AFDC Administration.
   c. Control language requiring that the General Fund allocation to each county be reduced by the amount of state funds the county misspent for October 1978–March 1979.
   d. Legislation be enacted requiring that fiscal sanctions be applied against counties with high error rates in order to recover state funds misspent by counties.
   e. Department develop a plan, prior to budget hearings, for improving the reliability of its quality control error rate data.
3. Child Support Enforcement Program. Recommend that Legislation be enacted which allows the state and counties to recover their administrative costs for child support enforcement services provided to nonwelfare recipients. 947

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation for the state's share of costs incurred by the counties for administering: (a) the AFDC program, (b) the Child Support Enforcement program, (c) the Food Stamp program, and (d) special benefits and emergency payment programs for aged, blind and disabled recipients. The costs for training county eligibility and nonservice staff also are shown in this item.

Table 1
Expenditures for County Welfare Department Administration
1979–80 and 1980–81

	Estimated 1979–80				*Proposed 1980–81*				*Percent Change*			
Program	*Federal*	*State*	*County*	*Total*	*Federal*	*State*	*County*	*Total*	*Federal*	*State*	*County*	*Total*
AFDC administration	$125,997,200	$62,713,900	$62,713,800	$251,424,900	$140,553,000	$68,616,200	$68,616,500	$277,785,700	11.6%	9.4%	9.4%	10.5%
Food stamp administration	35,155,600	17,577,400	17,577,500	70,310,500	32,484,400	16,199,500	16,199,500	64,883,400	−7.6	−7.8	−7.8	−7.7
Child support enforcement administration:												
Welfare	45,130,500	—	15,043,500	60,174,000	49,192,300	—	16,397,400	65,589,700	9.0	—	9.0	9.0
Nonwelfare	—	11,813,900	3,938,000	15,751,900	—	12,877,200	4,292,400	17,169,600	—	9.0	9.0	9.0
Administration of special adult programs	23,900	2,327,800	21,000	2,372,700	—	2,537,400	22,900	2,560,300	—	9.0	9.0	7.9
Staff training	5,415,232	964,811	840,300	7,220,343	5,495,200	915,800	915,900	7,326,900	1.5	−5.1	9.0	1.5
Totals	$211,722,432	$95,397,811	$100,134,100	$407,254,343	$227,724,900	$101,146,100	$106,444,600	$435,315,600	7.6%	6.0%	6.3%	6.9%

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $101,146,100 from the General Fund as the state share of county administration of welfare programs in 1980–81. This is an increase of $5,748,289, or 6.0 percent, over estimated current year expenditures.

Total expenditures of $435,315,600 are proposed for county administration of welfare programs in 1980–81. This is an increase of $28,061,257, or 6.9 percent, over estimated current year expenditures. Table 1 shows the total expenditures for county welfare administrative costs.

Table 2 shows the proposed changes in General Fund expenditures for county administration of welfare programs. The largest General Fund increase is $8,267,800 to provide a 9 percent cost-of-living increase for county welfare departments. This is offset by estimated savings of $2,905,-200 in the administration of the Food Stamp program due to a projected decrease in Food Stamp caseload.

Table 2
Proposed 1980–81 General Fund Changes
For County Welfare Department Administration

	Cost	*Total*
1979–80 Current Year Revised		$95,397,811
Baseline Adjustments:		
A. AFDC Administration		
1. 9 percent cost-of-living for 1980–81	$5,582,800	
2. Adjust 1979–80 cost-of-living for caseload	206,200	
3. Other adjustments	113,300	
Total		$5,902,300
B. Food stamp administration		
1. 9 percent cost-of-living for 1980–81	1,336,500	
2. Adjust 1979–80 cost-of-living for caseload	−57,300	
3. Projected caseload decrease	−2,905,200	
4. Indochinese refugee administrative costs	276,800	
5. Other adjustments	−28,700	
Total		$−1,377,900
C. Child support enforcement—Nonwelfare recipients		
1. 9 percent cost-of-living for 1980–81		$1,063,300
D. Administration of special adult programs		
1. 9 percent cost-of-living for 1980–81		$209,600
E. Staff training		
1. 9 percent cost-of-living	$75,600	
2. Nonrecurring expense—training of county fair hearing representatives	−124,611	
Total		$−49,011
F. Total budget increase		($5,748,289)
G. General Fund Expenditures		$101,146,100

Scheduling of Federal Funds for County Welfare Department Administrative Costs

We recommend that federal funds for county welfare administrative costs scheduled in Item 313 be increased by $6,900,700 and that federal funds for county administrative costs in Item 311 (special adult programs) be reduced by $6,900,700.

Item 311 contains $6,900,700 in federal funds for county administrative costs related to two refugee programs: (1) Indochinese refugees and (2) Cuban refugees. In our analysis of Item 311, we recommend that the funds be budgeted in Item 313 because this item contains the funds for county welfare administrative costs. Thus, in order to facilitate legislative review, we recommend that federal funds in Item 313 be increased by $6,900,700 to reflect the reduction in federal funds in Item 311.

Fiscal Sanctions for High Error Rates

We recommend:

a. *Reduction of $20,909,371 from the General Fund to recover state funds misspent by counties with error rates above 4 percent for the quality control period October 1978–March 1979.*
b. *The reduction of $20,909,371 be scheduled in Item 313 under AFDC Administration.*
c. *Control language requiring that the General Fund allocation to each county be reduced by the amount of state funds the county misspent for October 1978–March 1979.*
d. *Legislation be enacted requiring that fiscal sanctions be applied against counties with high error rates in order to recover state funds misspent by counties.*
e. *Department develop a plan, prior to budget hearings, for improving the reliability of its quality control error rate data.*

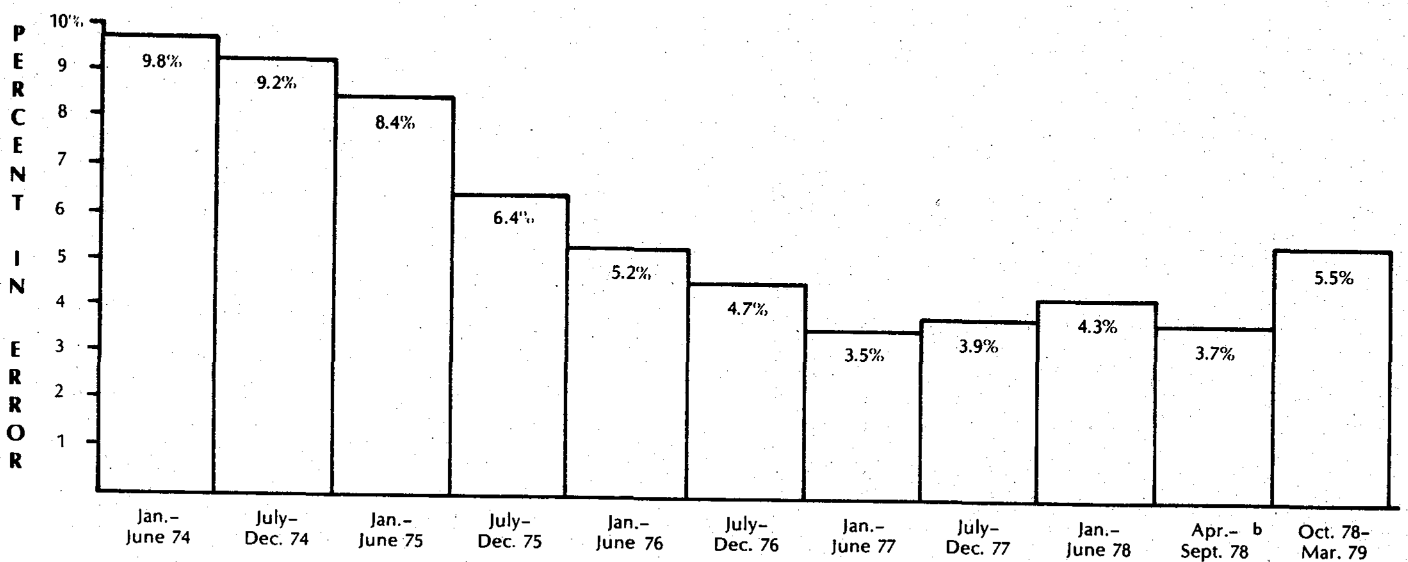
Historically, California's error rates for the administration of the AFDC program have been among the lowest of all states. In addition, California has had one of the lowest error rates among states that have large caseloads. For example, for the period of January through June 1978, California's payment error rate was 4.3 percent; New York's was 13.0 percent; Pennsylvania's was 16.1 percent; and Illinois' was 19.5 percent. California's low error rates were achieved at a time when the counties were paying approximately 16 percent of the costs for AFDC grants.

Fiscal Sanction Provisions of SB 154. As a result of passage of SB 154, the state assumed the county costs for AFDC grants during 1978–79 while the counties continued to administer the program. The act also contained language allowing the Director of the Department of Social Services to hold counties financially liable for excessive error rates in the administration of the AFDC program. In addition, the director was given the authority to establish the error rate standard for which counties would be held fiscally liable.

The department issued regulations establishing a 4 percent payment error rate for 1978–79. For fiscal sanction purposes, payment error rate was defined as payments to ineligible recipients and overpayments to eligible recipients.

In order to determine the county error rates, the department augmented its federally-required quality control sample of 1,200 cases by 3,800 cases for a total of 5,000 cases reviewed during each six-month reporting period. This provided a minimum sample of 120 cases for each of the 34 largest counties. These counties represent approximately 85 percent of the statewide caseload.

Chart 1
Statewide AFDC Payment Error Rates [a]
January 1974 to March 1979



a. Combined payment error rates for overpayments and payments to ineligibles.

b. Effective July 1, 1978, federal quality control review periods were changed from January through June and July through December to April through September and October through March.

The first complete quality control period for 1978–79 was October 1978 through March 1979. The statewide payment error rate for this period was 5.5 percent, as shown in Chart 1. This was an increase of 49 percent over the error rate for the previous reporting period. It was also the highest error rate for the state during the last three years. This error rate represents misspent funds for a six-month period of $47,737,700, of which the federal government paid $23,590,500 and the state paid $24,147,200.

Table 3 shows that among the 34 largest counties, the error rate ranged from a low of 0.8 percent in Kern County to a high of 10.7 percent in San Francisco County. Ten counties exceeded the statewide error rate of 5.5 percent and 15 counties had error rates above the 4 percent standard set by the department. Of the 11 counties with the largest caseloads, six had error rates above the statewide average.

Table 3
Thirty-four Largest Counties
AFDC Payment Error Rates
October 1978 through March 1979

County	*Payment Error Rate*
*San Francisco	10.7%
*San Diego	9.5
San Mateo	8.5
*Los Angeles	7.4
*Contra Costa	7.3
*San Bernardino	7.3
Sonoma	7.2
San Luis Obispo	6.6
*Alameda	5.9
Marin	5.7
Statewide	5.5
Ventura	5.1
*Orange	4.8
Mendocino	4.5
Santa Barbara	4.4
Merced	4.1
Imperial	4.0
Monterey	4.0
*Fresno	3.9
Kings	3.7
Madera	3.7
*Santa Clara	3.6
Shasta	3.5
Yolo	3.4
San Joaquin	3.3
Santa Cruz	3.3
*Riverside	3.2
Solano	2.9
*Sacramento	2.4
Tulare	1.9
Butte	1.7
Humboldt	1.4
Stanislaus	1.4
Yuba	0.9
Kern	0.8

* Eleven largest counties. Source: Department of Social Services.

Fiscal Sanction Provisions of AB 8. AB 8 contains language allowing the director to apply fiscal sanctions against counties for high error rates in 1979–80 and subsequent years. In addition, Chapter 1133, Statutes of 1979 (AB 339), requires the director to notify the Joint Legislative Budget Committee by January 30, 1980, of the error rate standard to be in effect during 1979–80. The act requires that beginning with fiscal year 1980–81, the error rate standard shall be established in the budget.

Will Fiscal Sanctions Be Applied? We asked the department in January 1980 if it planned to apply fiscal sanctions against counties with high error rates. The department responded that it would not sanction counties for the first two quality control periods (October 1978–March 1979 and April 1979–September 1979). The department indicated that sanctions might be applied during the third quality control period of October 1979–March 1980.

The department cited the following reasons for not exercising its sanction authority. First, the increased error rates during 1978–79 could be partially due to low morale among county welfare employees, who at the time thought they would not receive cost-of-living increases during 1978–79 due to the passage of Proposition 13. Second, county welfare departments were implementing major changes required by the federal government in the administration of the Food Stamp program during this period. Third, the counties had expressed concern about the size of the quality control sample and therefore the reliability of the error rate data.

We have no basis for determining why the statewide error rate increased significantly for the period October 1978 through March 1979. Furthermore, we do not know whether this is a temporary or permanent deterioration in the quality of AFDC program administration. Error rate data for the second quality control period (April 1979–September 1979) are not available as of this writing. The department indicates that this information will be available in early 1980.

Misspent Funds Can Be Recovered. We asked the Legislative Counsel if the Legislature could recover misspent state funds from counties with error rates in excess of the error rate standard for the period October 1978–March 1979. The Legislative Counsel has informed us that the Legislature can recoup misspent funds from counties with error rates in excess of the error rate standard for any period after October 1978 by reducing the General Fund appropriation for county welfare department administrative costs (Item 313).

If the department had applied fiscal sanctions against counties with error rates above 4 percent, the state would have recovered $20,909,371 in misspent funds for the period of October 1978–March 1979. Table 4 shows the amount of funds which would have been recouped from the 15 counties with error rates above 4 percent.

Table 4
Misspent Funds Which Could Be Recovered
October 1978–March 1979

County	*Error Rate*	*Amount*
San Francisco	10.7%	$1,801,789
San Diego	9.5	2,970,881
San Mateo	8.5	449,425
Los Angeles	7.4	12,099,465
Contra Costa	7.3	706,615
San Bernardino	7.3	1,153,308
Sonoma	7.2	294,255
San Luis Obispo	6.6	72,997
Alameda	5.9	901,528
Marin	5.7	43,163
Ventura	5.1	142,984
Orange	4.8	226,356
Mendocino	4.5	14,425
Santa Barbara	4.4	25,914
Merced	4.1	6,266
Total		$20,909,371

The amount of funds which would have been recovered from each county is based on the *department's* regulations for applying fiscal sanctions for the period October 1978–March 1979. The regulations provide that a county's fiscal liability is equal to the percent of payment error rate above 4 percent multiplied by the total aid payment dollars expended by the county during the review period. For example, Marin County had a 5.7 percent error rate and expended $2,538,994 during the review period, resulting in a fiscal liability of $43,163 (5.7 percent −4 percent = 1.7 percent × $2,538,994 = $43,163).

Sanctions Needed. Our analysis indicates that fiscal sanctions should be applied against counties with high error rates for the following reasons:

First, *the department's perception of low morale among county welfare department personnel is an inappropriate basis for determining when to apply sanctions against counties.* (Moreover, the Department of Social Services indicates that most county welfare departments eventually received cost-of-living increases in 1978–79. The state General Fund cost for the increases totaled $3,993,331 in 1978–79.)

Second, *fiscal sanctions are needed to encourage counties to control program costs.* If fiscal sanctions are not applied, the federal and state governments will fund almost 95 percent of the payment errors, while the counties, which administer the program, will fund only 5 percent of the erroneous payments. It is important that other fiscal incentives be established to encourage a high level of administrative performance and keep payment errors low.

Third, *sound administrative policy requires that the level of government responsible for determining eligibility and making payments also should be responsible for excessive overpayments and payments to ineligible recipients.*

Fourth, *by authorizing the department to establish a sanction process, it would appear that the Legislature intended that such a mechanism be used when counties have excessive error rates.*

Fifth, *the federal government has proposed regulations which would require all states to reduce their payment error rates to 4 percent by*

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

September 30, 1982. During the next three years, states would be required to reduce their error rates by one-third each year until they reached 4 percent in September 1982. In addition, the federal government issued regulations effective November 26, 1979, which provide for increased federal financial participation for states that have error rates below 4 percent. The state will receive 10 percent of the federal share of money saved for each one-half percentage point that the state's rate is below the 4 percent level.

Sixth, *if fiscal sanctions are applied against counties with high error rates, the state will be able to recover some of the state funds paid by the counties in error.*

Because the Department of Social Services has stated that it will not attempt to recover state funds misspent by the counties in the administration of the AFDC program for the period October 1978–March 1979, we recommend that:

(a) The Legislature reduce the General Fund appropriation in Item 313 (County Welfare Department Administration) by $20,909,371 in order that the state can recover the funds misspent by the counties with error rates in excess of the 4 percent error rate standard for October 1978–March 1979.

(b) The Legislature schedule in Item 313 the General Fund amounts to be reduced from AFDC administration as follows:

(a) AFDC Administration	$47,706,829
(1) Total program	209,169,200
(2) Federal funds	–140,553,000
(3) Amount withheld for purposes of holding counties liable pursuant to Section 37, Chapter 292, Statutes of 1978 and Section 83, Chapter 282, Statutes of 1979	–20,909,371

(c) Budget Act language be added which requires that General Fund support allocated to each county for welfare department administration for 1980–81 be reduced by the amount of the county's fiscal liability pursuant to Section 37, Chapter 292, Statutes of 1978 and Section 83, Chapter 282, Statutes of 1979. Thus, counties with error rates of 4 percent or below would not have their General Fund allocations reduced, while counties with error rates above 4 percent would receive reduced General Fund support. We recommend the following language for Item 313:

"Provided further, that General Funds allocated to each county for administration of the Aid to Families with Dependent Children program for 1980–81 be reduced by the amount of the county's fiscal liability pursuant to Section 37, Chapter 292, Statutes of 1978 and Section 83, Chapter 282, Statutes of 1979."

(d) Legislation be enacted to *require* the application of fiscal sanctions because current law allows, but does not require, the department to apply such sanctions.

(e) The department submit a written plan, prior to budget hearings, for improving the reliability of the quality control error rate data for counties.

Child Support Enforcement Services Provided Nonwelfare Recipients

We recommend that legislation be enacted which allows the state and counties to recover their administrative costs for child support enforcement services provided to nonwelfare recipients.

Background. Federal and state law recognize the obligation of parents to support their children. In order to ensure that parents meet this responsibility, the state has created a Child Support Enforcement Program which is state supervised and locally administered. The district attorney's office in each county, in cooperation with the county welfare department, is responsible for the day-to-day activities related to determining paternity, locating absent parents and obtaining child support payments. These services are available to welfare and nonwelfare parents.

Historically, the administrative costs for this program have been shared by the federal and county governments, with the federal government paying 75 percent and the counties contributing 25 percent. In 1978–79, the state assumed the county share of administrative costs for the welfare and nonwelfare components of this program as a result of the enactment of Chapter 292, Statutes of 1978 (SB 154). Beginning in 1979–80, counties again contribute 25 percent of the costs for child support enforcement services provided *welfare* recipients. However, Chapter 282, Statutes of 1979 (AB 8), requires the state to pay 75 percent of the administrative costs for child support enforcement services provided *nonwelfare* recipients, if federal funds are not available for such purposes.

Federal Funding for Nonwelfare Recipients. Federal funding for the nonwelfare portion of the child support enforcement program ended on October 1, 1978. On January 2, 1980, President Carter signed HR 3091 (PL 96-178), which retroactively provides 75 percent federal funding for the nonwelfare program from October 1978 through March 31, 1980. At this time, it is unclear whether federal funding will be available after March 1980. Pending legislation (HR 4904) would provide permanent federal matching funds for this program. If federal funds are not available in 1980–81, then the state will be required to pay 75 percent of the administrative costs and the counties will pay 25 percent pursuant to the provisions of AB 8.

Recoupment of Nonwelfare Administrative Costs. Federal regulations allow states and counties to recoup administrative costs incurred in providing child support enforcement services to *nonwelfare* parents. These costs include locating the absent nonwelfare parent, establishing paternity of the nonwelfare child, obtaining support obligations, and collecting and distributing support payments.

Federal regulations allow administrative costs to be recovered by deducting the costs for such services from the amount of the support payment prior to the district attorney's office sending the payment to the recipient. In addition, federal regulations provide that large initial administrative costs may be prorated over a period of months. We have been advised by staff of the federal Child Support Enforcement Program that federal regulations do not prohibit a state from charging the absent parent for the administrative costs of this program, instead of deducting the costs from the support payment.

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

California's Child Support Enforcement Plan. Although federal law allows states to recoup their administrative costs for providing child support services to nonwelfare recipients, California has not taken advantage of this provision in the past. Specifically, the state's child support enforcement plan does not provide for recoupment of administrative costs. In addition, the department reports that only 13 counties charged a fee to nonwelfare recipients for the child support services provided during the quarter ending March 1979. Moreover, discussions with department staff indicate that the fees charged were inadequate to cover the administrative costs in most of these counties.

We asked the Department of Social Services in December 1979 why California did not take advantage of the federal provision to recover the administrative costs related to this program. We were advised that the department opposed recoupment because the administrative costs would be deducted from the child support payment, thereby reducing the amount of money provided to the dependent child. In addition, the department stated that a service fee would deter individuals from requesting child support services.

Nonwelfare Collections and Administrative Costs for 1980–81. The Department of Social Services estimates that child support collections for nonwelfare recipients will total $112,000,000 in 1980–81, as shown in Table 5. Administrative costs for this program are proposed at $17,169,600 for the budget year. Of this amount, the state will pay $12,877,200 (if federal funds are not available) and the counties will pay $4,292,400.

Table 5
Nonwelfare Child Support Enforcement Program
Support Collections and Administrative Costs
1980–81

	Amount
Collections	$112,000,000
Administrative Costs	17,169,600
Federal	—
State	(12,877,200)
County	(4,292,400)

Administrative Costs Should Be Recouped. AB 8 requires the state to pay 75 percent of the administrative costs for child support services provided to nonwelfare recipients. We asked Legislative Counsel if the state and counties could recoup these administrative costs and, if collectible, the method by which they could be recovered under AB 8. Legislative Counsel has issued an opinion that the state and counties do not have the authority under current state law to recover their administrative costs for this program.

Our analysis suggests that legislation should be enacted allowing the state and counties to recoup their administrative costs for child support enforcement services provided to nonwelfare recipients by charging the absent parent for the services. First, federal funding of these administrative costs in the future is uncertain. Second, federal law and regulations permit the state to recover these administrative costs.

Department of Social Services
LOCAL MANDATES

Item 314 from the General Fund — Budget p. HW 162

Requested 1980–81	$7,930,200
Estimated 1979–80	7,261,900
Actual 1978–79	15,521,623
Requested increase $668,300 (+9.2 percent)	
Total recommended reduction	None

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item contains the General Fund appropriation to reimburse local governments for executive and legislative mandates. The budget proposes a General Fund appropriation of $7,930,200 for local mandates. Of this amount, $2,488,800 is to reimburse counties for the cost of implementing various executive regulations. The remaining $5,441,400 is to reimburse counties for a state mandated increase in payment levels for recipients of assistance under the Aid to Families with Dependent Children (AFDC) program.

Executive Mandates

The Governor's Budget proposes to reimburse counties for implementing three executive regulations relating to the following programs: Aid to Families with Dependent Children (AFDC), Aid to the Potentially Self-Supporting Blind (APSB), and In-Home Supportive Services (IHSS).

The reimbursements are proposed in accordance with Section 2231 of the Revenue and Taxation Code.

1. *Work-Related Equipment—AFDC Program.* The department has implemented regulations which exclude the entire value of an AFDC recipient's work-related equipment from property value in determining eligibility for benefits. Previous regulations provided a maximum exemption of $200. General Fund costs are estimated to be $9,500 in 1980–81.

2. *Treatment of Loans—AFDC and APSB Programs.* The department has implemented regulations which change the method of treating loans when calculating a recipient's grant level under the AFDC and APSB programs. Under previous regulations, loans made to recipients were counted as income when determining a recipient's grant. The new regulations exclude loan repayments as countable income. The budget estimates expenditures of $4,500 for these regulations in 1980–81.

3. *Regulations for the In-Home Supportive Services Program.* The budget proposes $2,474,800 to reimburse counties for social worker time spent implementing the April 1, 1979 regulations for the In-Home Supportive Services (IHSS) program. Increased levels of service are required by the regulations to (1) assess the need for in-home supportive services for clients residing in shared living situations, (2) teach and demonstrate homemaking skills, and (3) provide protective supervision to IHSS recipi-

LOCAL MANDATES—Continued

ents. The amount budgeted for this mandate is an increase of $326,600, or 17 percent, over estimated expenditures for the current year, based on a 7.9 percent projected caseload increase and a 9 percent cost-of-living adjustment.

Legislative Mandates

Six-Percent Increase in AFDC Grants. Chapter 348, Statutes of 1976, increased the AFDC welfare payment standard by 6 percent effective January 1, 1977, in order to provide a higher standard of living for AFDC recipients. Normally, counties pay a portion of AFDC grant costs. However, because the state mandated the increase, it has an obligation to reimburse counties for their share of the 6 percent increase. The budget proposes General Fund expenditures of $5,441,400 in 1980–81 to reimburse counties for their costs.

Chapter 348 disclaims any obligation on the state's part to reimburse counties for cost-of-living increases in payment standards. As a result, cost-of-living increases do not affect the state's level of reimbursement on a cost-per-case basis.

Health and Welfare Agency

CALIFORNIA HEALTH FACILITIES COMMISSION

Item 315 from the California Health Facilities Commission Fund — Budget p. HW 173

Requested 1980–81	$2,100,217
Estimated 1979–80	2,085,758
Actual 1978–79	1,616,016
Requested increase (excluding amount for salary increases) $14,459 (+0.7 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Patient Discharge Data. Recommend legislation requiring hospitals to report patient discharge abstract data to the commission. 951

GENERAL PROGRAM STATEMENT

The California Health Facilities Commission collects financial data from health facilities and discloses financial information on the facilities to the public.

The commission was created by Chapter 1242, Statutes of 1971, which also required that a uniform accounting and reporting system be developed for hospitals. Chapter 1171, Statutes of 1974, extended this reporting requirement to long-term care facilities. The purpose of the reporting requirements are to: (1) encourage economy and efficiency in providing health care services, (2) enable public agencies to make informed decisions in purchasing and administering publicly financed health care, (3) encourage organizations which provide health care insurance to take into account financial information provided to the state in establishing reimbursement rates, (4) provide a uniform health data system for use by all state agencies, (5) provide accurate information to improve budgetary planning, (6) identify and disseminate information regarding areas of economy in the provision of health care consistent with quality of care, and (7) create a body of reliable information which will facilitate commission studies that relate to the implementation of cost effectiveness programs.

Chapter 1337, Statutes of 1978, expanded commission responsibilities by requiring the commission to: (1) establish standards of effectiveness for health facilities, and (2) forecast hospital operating and capital expenditures for each of the state's Health Systems Areas and for the state as a whole. Health Systems Agencies must then consider these standards and forecasts in developing their area health plan.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $2,100,217 from the Health Facilities Commission Fund for support of the commission in 1980–81, which is an increase of $14,459, or 0.7 percent, over estimated current year expenditures. This amount will increase by the amount of any salary and staff benefit increases approved in the budget. The primary components of the change are:

(1) discontinuation of long-term care (LTC) facility disclosure reports, for a savings of $136,500,
(2) establishment of three new positions for a Disclosure and Interagency Relations Unit, at a cost of $70,433,
(3) a $55,051 reduction to eliminate three positions not required to continue existing functions, and
(4) $135,577 increase for merit salary and price adjustments.

Discharge Data Needed

We recommend enactment of legislation requiring hospitals to report patient discharge abstract data to the commission.

Patient discharge data includes medical diagnosis and patient status upon discharge from the hospital. The data are collected in abstracts, without patient or physician name. A format for data collection has been established (the Uniform Hospital Discharge Data Set for California), and is used by many hospitals for administrative purposes. The format is endorsed by the California Hospital Association.

Currently, university hospitals are required by Item 346, Budget Act of 1979 to provide the commission with discharge data, and some private hospitals disclose the information voluntarily. The commission staff is currently developing a data processing system for discharge data, which should be completed in 1980–81.

The effectiveness of the commission's hospital disclosure program would be greatly enhanced if hospitals were required to provide the

CALIFORNIA HEALTH FACILITIES COMMISSION—Continued

commission with patient discharge abstracts. With this information, the commission would be able to (1) assess the complexity of an individual hospital's patient load, (2) group and compare hospitals by patient load complexity, (3) compare mortality rates for various diagnoses among different hospitals, and (4) compare gross operating costs among hospitals of similar patient load complexity. Such information will particularly aid HSAs and other agencies in their health planning activities.

Given the state's substantial financial interest in promoting efficiency in the provision of health care services, we recommend that legislation be introduced amending the Health Facilities Disclosure Act to require all hospitals to disclose patient discharge abstract data. Because the data is in abstract form, supplying it to the commission would not violate confidentiality requirements.

Disclosure and Interagency Relations Unit

We recommend approval.

The budget proposes three new positions to establish a Disclosure and Interagency Relations Unit, at a cost of $70,433 in 1980–81. The unit will conduct activities which will:

1. improve communication between the commission and users of the commission's data—primarily the HSAs, the Office of Statewide Health Planning and Development (OSHPD), and the Department of Health Services (DHS);
2. improve the effectiveness of the commission's disclosure programs;
3. increase the number of research papers produced by the commission staff in support of their hospital disclosure program;
4. increase data accessibility and reduce duplicative reporting requirements; and
5. improve the structure of auditing and investigating activities among the commission, DHS, and OSHPD.

The commission's current disclosure programs do not provide sufficient technical assistance to the users of the information. This is particularly true in the case of the Health Systems Agencies, whose members generally lack the technical expertise required to interpret the data provided in the hospital disclosure reports. Our analysis indicates that the proposed unit is necessary if the commission is to increase the effectiveness of its disclosure programs. We recommend approval of the proposal.

Discontinuation of LTC Facility Reports Processing

We recommend approval.

The commission proposes to discontinue its collection of financial disclosure reports from LTC facilities, and instead to utilize the Medi-Cal cost report for the commission's disclosure activities, for a savings of $136,500.

The commission's LTC facility accounting, reporting, and disclosure program is currently staffed by 10 positions at a cost of $431,409. The program consists of five elements: (1) reports processing, (2) disclosure, (3) accounting systems, (4) data processing support, and (5) data processing operations. The commission proposes specifically to:

1. eliminate the reports processing element. The commission will in-

stead utilize the Medi-Cal cost reports and will reimburse the Department of Health Services (DHS) in the amount of $55,386 for the commission's share of the departments reports processing costs. The commission will realize a cost savings of $78,386 through the elimination of three accounting and one clerical position and printing expenses.

2. share expenses with the department for the commission's data processing system support and operations. The commission will automate the Medi-Cal cost report on LTC facilities and will use the data to continue its existing disclosure function. The department will reimburse the commission in the amount of $113,500.

Implementing this arrangement will allow the commission to continue its LTC facility disclosure function and to reduce program costs to $294,909 for a savings of $136,500. We have reviewed the proposed procedure revisions and recommend their approval.

Review of Commission Functions

The Supplemental Report of the Budget Act of 1979, requires the Legislative Analyst to review the functions of the commission to determine which, if any, of its functions should continue, and to report his findings to the Legislature in the analysis of the Budget Bill of 1980.

The commission has three primary functions: (1) hospital accounting, reporting, and disclosure, (2) long-term care facility accounting, reporting, and disclosure, and (3) research.

Hospital Accounting, Reporting, and Disclosure

California hospitals file an annual report with the commission containing:

1. a balance sheet detailing the hospital's assets, liabilities, and net worth at the end of the hospital's last fiscal year;
2. a statement of the hospital's income, expenses, and operating surplus or deficit for the past fiscal year;
3. a statement detailing the source and application of funds expended during the past fiscal year;
4. data which allocates the costs of non-revenue-producing departments of the hospital to the other non-revenue and revenue-producing centers which they serve; and
5. data which identifies costs related to categories, types, or units of health care services.

The reports filed by the hospitals are based on a uniform accounting and reporting system required by commission regulations. The commission has collected the disclosure reports for four years.

The commission's hospital disclosure program consists of two activities: (1) disclosure of hospital financial data to specific public and private organizations, both on an ongoing basis and in response to special requests, and (2) disclosure to the general public. The information is disclosed in a variety of different formats, including individual hospital reports, the *Inventory of Financial and Statistical Information, Hospital Data for Health Systems Agencies, Economic Standards for Health Planning in California,* special research reports, and, for some users, the commission's comprehensive data base itself on computer tape.

The commission discloses hospital cost data to a large number of organizations. Foremost among these are the state's 14 Health Systems Agencies (HSAs), which receive all of the commission's regular publications on an ongoing basis. The HSAs rely primarily on the *Hospital Data for Health Systems Agencies, the Economic Standards for Health Planning in California,* and the individual hospital reports. These documents are the HSAs' primary source of quantitative information used for their ongoing health planning activities.

Several units in the Department of Health Services make use of the commission hospital data. The Audits and Investigations Division makes use of the individual hospital reports and the comprehensive data base to supplement the Medi-Cal cost report. The division uses the commission data because (1) the Medi-Cal cost report is not automated, (2) cost center identified in the Medi-Cal cost reports are not uniform, and (3) the commission's data reports more cost centers than the Medi-Cal report. The Medical Care Standards Division and the Office of Planning and Evaluation also make use of the commission's hospital data.

Other administrative agencies that use the commission's hospital data include the Division of Health Planning in the Office of Statewide Health Planning and Development, the Health and Welfare Agency Secretary's Office, the Attorney General's Office, the State Controller, and county governments. Several legislative bodies also make use of the commission's data.

Nongovernmental users of the commission have included individual hospitals, the California Hospital Association, the Schools of Public Health at the University of California, health insurers, and certain health professional labor organizations. The commission disseminates data on hospital costs to consumers of health care services as well as to specific organizations. These activities consist primarily of press releases which disclose data from selected research projects conducted by the commission staff.

Our recommendations to the Legislature concerning this function will be made in a supplemental analysis to be released prior to budget hearings. Our recommendations will be based on the following criteria:

1. The effectiveness of the commission's hospital data disclosure activities in promoting economy and efficiency in the provision of hospital services;
2. The cost of the disclosure program; and
3. The availability of alternative data sources and the potential to eliminate duplication of reporting and disclosure activities.

LTC Facility Accounting, Reporting, and Disclosure

Chapter 1171, extended hospital accounting, reporting, and disclosure requirements to long-term care (LTC) facilities. The commission has completed the collection and coding of one year's LTC facility disclosure reports.

Our recommendations to the Legislature concerning this function will be based on the following criteria:

1. The potential of disclosure to promote efficiency and economy in the provision of LTC facility services;
2. The costs of these disclosure activities; and
3. The availability of alternative data sources and the potential to eliminate duplication of reporting and disclosure activities.

Research

The commission's research activities consist of:
1. Developing the *Economic Standards for Health Planning in California*; and
2. Producing special reports, or "white papers", on selected topics concerning the hospital industry. Both of these activities support the two reporting and disclosure programs.