Health and Welfare Agency

STATE COUNCIL ON DEVELOPMENTAL DISABILITIES AND AREA BOARDS ON DEVELOPMENTAL DISABILITIES

Item 410 from the Federal Trust Fund and Item 411 from reimbursements — Budget p. HW 1–2

Requested 1981–82	$3,270,118
Estimated 1980–81	3,632,412
Actual 1979–80	3,558,933
Requested decrease (excluding amount for salary increases) $362,294 (−10.0 percent)	
Total recommended reduction	$163,522

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
410-001-890	State Council on Developmental Disabilities	Federal Trust	3,270,118
	—Support		(817,530)
	—Transfer to Developmental Disabilities Program Development Fund		(981,035)
	—Transfer to Area Boards on Developmental Disabilities		(1,471,553)
411-001-001	Area Board on Developmental Disabilities, Support	Reimbursements	0

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Contract Services. Reduce Item 410 by $163,522.*** Recommend funds budgeted for unspecified contract services be deleted, for a savings of $163,522 in federal funds. — 666

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.

There are 13 Area Boards on Developmental Disabilities which 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.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $3,270,118 from federal funds for support of the state council and area boards in 1981–82, which is a decrease of $362,294, or 10.0 percent, below estimated current year expenditures. The current year estimate includes the expenditure of a one-time supplemental federal grant that was received in the fourth quarter of federal fiscal year 1980. If this grant is excluded from the current year estimates, the proposed appropriation for 1981–82

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

is identical to that made in the current year. This amount is based upon the quarterly allocations that currently are being received from the federal government for these programs. The actual amount of the 1981–82 grant awards will depend upon the amount appropriated in the federal 1982 budget.

In accordance with provisions of state and federal law, the state council proposes to allocate the grant award as follows: (a) 25 percent, or $817,530, for support of state council operations, (b) 30 percent, or $981,035, for transfer to the Developmental Disabilities Program Development Fund for development of new community programs, and (c) 45 percent, or $1,471,553, for transfer to the area boards. The budget identifies a total of 54 positions, including 13 for the state council and 41 for the area boards. Included within the area board proposal are five professional positions administratively established in the current year, which are proposed to be continued in 1981–82.

State Council Contract Services Request Is Unjustified

We recommend that funds budgeted for unspecified contract services be deleted, for a savings of $163,522 in Item 410-001-890 from federal funds.

The state council is requesting $243,000 for contract services. This amount does *not* include funds budgeted for contracts with the area boards for advocacy services and the Department of Developmental Services for community program development. The state council prepared a list of contract services funded during the current year. Three of these contracts are proposed for continuation in the budget year: (a) a contract in the amount of $50,000 with the Health and Welfare Agency to establish staff to implement the State Plan on Developmental Disabilities; (b) a contract with the Department of Social Services in the amount of $27,500 to provide certain administrative services for the state council and area boards; and (c) a contract with McGeorge School of Law in the amount of $1,978 to hire a part-time legal intern to work with council staff. The three contracts total $79,478. The council has provided no expenditure plan for the remaining funds requested. Without information that describes and justifies how these funds will be spent, we have no analytical basis on which to recommend that these funds be appropriated. Accordingly, we recommend that $163,522 in federal funds be deleted from Item 410 until the council is able to submit an expenditure plan and adequate justification for its proposed contract services budget.

Report on Barriers to Deinstitutionalization

Item 273 of the Budget Act of 1980 requires the state council to conduct a study identifying barriers and obstacles to developing and sustaining community programs for the developmentally disabled, and to prepare an action plan for eliminating those barriers. The state council's report to the Legislature concerning these issues was due December 19, 1980. The state council has requested an extension of this deadline, and plans to submit its report no later than March 15, 1981.

Area Boards Face Possible Operating Deficit in the Budget Year

A total of 36 staff positions are authorized for the area boards in the current year, which is sufficient to provide eight boards with two professional staff and five boards with one. In addition to these positions, the area boards have administratively established five additional community program analyst positions, which would provide all 13 boards with two professional staff. The additional five positions are being funded from (1) the supplemental federal grant award and (2) redirections from operating expenses during the current year. The budget proposes to continue the five positions in 1981–82.

Our analysis indicates that because the supplemental grant award was a one-time event, and is unlikely to be repeated in 1981–82, the area boards are likely to incur an operating deficit in the budget year. To support the five new positions in 1980–81, area boards have reduced allocations to operating expenses by approximately 50 percent below the original current year allocations. At the same time, they have placed the supplemental grant in contract services, and are using these funds to cover deficits in the other operating expense categories. The 1981–82 budget continues funding for operating expenses at the revised level established for the current year. However, unlike the situation in the current year, there will not be a surplus available in contract services to cover deficits in other areas of operating expenses. Consequently, if area boards are to hold expenditures in 1981–82 to the level of anticipated revenues, they must reduce actual operating expenses by approximately one-half.

Some expenditure categories, such as facilities operations and utilities, cannot be reduced significantly. Others, such as printing, communications, and travel, could be reduced, but such reductions would impair the level of services currently provided. Because the budget has been balanced by reducing operating expenses below area boards' actual budget requirements, the boards may incur a deficit approximating $250,000. The Legislature should be aware that the administration, by using operating expense funds to support the establishment of five new positions, has significantly underfunded the operating support of the previously authorized level of service.

The budget also fails to consider the potential cost of salary increases for area board employees. If increases are authorized by the Legislature, the area boards would have to absorb the additional cost within their existing federal allocation.

The area boards should be prepared to present testimony at the budget hearings describing in detail (1) the effect on the level and quality of area board services of the reductions they propose in operating expenses and (2) alternatives and recommendations for avoiding reductions in service levels and actual budget deficits.

Health and Welfare Agency

EMERGENCY MEDICAL SERVICES AUTHORITY

Item 412 from the General Fund — Budget p. HW 4

Requested 1981–82	$188,964
Estimated 1980–81	94,482
Actual 1979–80	None
Requested increase (excluding amount for salary increases) $94,482 (+100.0 percent)	
Total recommended reduction	Pending

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

EMERGENCY MEDICAL SERVICES AUTHORITY—Continued

GENERAL PROGRAM STATEMENT

The Emergency Medical Services (EMS) Authority was created by Chapter 1260, Statutes of 1980 (SB 125), which substantially revised existing law relating to emergency medical services. The authority has broad responsibility for reviewing local EMS programs and setting uniform statewide standards for training, certification and supervision of prehospital personnel classifications, including paramedics.

Specifically, the authority is required to:

1. Develop guidelines for, evaluate, and approve local EMS programs, and coordinate medical resources during disasters. Under existing law, the Department of Health Services is responsible for coordination of state EMS activities, and medical disaster planning. Funds are included in the Department of Health Services budget for a medical disaster planning unit but not for other functions.

2. Establish minimum standards for training and scope of practice for classifications of prehospital personnel, including emergency medical technician (EMT)-I (individuals trained in "basic life support"), EMT-II (individuals trained in "advanced life support"), and EMT-P (individuals trained in "limited advanced life support" or paramedics).

Under existing law, the Department of Health Services sets standards and approves programs for EMT-Is. Standards for EMT-IIs were never implemented due to a reduction of eight emergency medical services positions in the 1979–80 budget. Pilot programs for EMT-IIs are underway in five locations under the supervision of the Office of Statewide Health Planning and Development. Pilot programs for EMT-Ps are underway in 23 counties without state direction.

The act requires designation of local EMS agencies by counties which choose to develop an EMS program. The local EMS agency can be the county itself, a county unit, a joint-powers agency, or a contracting agency. The local EMS agencies are required to:

(a) Develop and submit to the authority annual EMS system plans. Local agencies are prohibited from implementing plans disapproved by the authority.

(b) Establish policies and procedures to assure medical control and supervision of EMT-IIs and EMP-Ps.

(c) Designate base hospitals and develop protocols for transfer of patients, based on availability of specialized services.

Counties which choose to develop an EMS program are required to:

(a) Approve EMT training programs and certify and recertify graduates. Counties could revoke certifications and withdraw approval of training programs on grounds specified in the act.

(b) Implement or authorize implementation of advanced or limited advanced life support systems, as appropriate for the area.

Existing law requires counties to establish emergency medical care committees, which act in an advisory capacity. The administrative structure for local emergency medical services is not specified in existing state law. Federal funds (Cranston Act, 1973) however, have been used to establish regional agencies which now perform many of the local functions identified in the act.

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on Item 412 pending receipt of a detailed expenditure plan.

The budget proposes an appropriation of $188,964 from the General Fund for support of the EMS Authority in 1981–82. This amount provides full-year funding of the authority at a rate equal to that provided for in Chapter 1260 during the last six months of 1980–81.

No detailed expenditure plan has been submitted to the Legislature for review. The Governor's Budget indicates that such materials will be provided prior to budget hearings. Accordingly, we withhold our recommendation on this item.

Health and Welfare Agency

HEALTH AND WELFARE AGENCY DATA CENTER

Item 413 from the Health and Welfare Consolidated Data Center Revolving Fund — Budget p. HW 4

Requested 1981–82	$19,469,563
Estimated 1980–81	13,447,557
Actual 1979–80	10,266,565
Requested increase (excluding amount for salary increases) $6,022,006 (+44.8 percent)	
Total recommended reduction	$2,132,834

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

GENERAL PROGRAM STATEMENT

The Health and Welfare Agency Data Center is one of three major state data processing centers authorized by the Legislature. 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 $19,469,563 from the Health and Welfare Consolidated Data Center Revolving Fund for support of the data center in 1981–82. This is an increase of $6,022,006, or 44.8 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 $486,000 of the increase would support 24 new positions. Most of the remaining increase would be allocated to computing equipment.

The size of the proposed increase in the data center's budget (44.8 percent) is due to (1) continued workload growth for existing automated systems and (2) 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 being developed by the Employment Development Department (EDD) will provide unem-

HEALTH AND WELFARE AGENCY DATA CENTER—Continued

ployment 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 being developed 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.

4. ***Hospital Automation,*** comprised of separate efforts by the Departments of Mental Health and Developmental Services to automate various hospital functions such as patient registration, tracking and discharge, and pharmacy operations.

Significant Problems Continue

In our *Analysis of the 1980 Budget Bill* we noted serious deficiencies in data center management planning and operations. These deficiencies were preventing the data center from providing the cost-effective computing services that the center was established to provide. Accordingly, language was included in the Supplemental Report to the 1980 Budget Act stating that the agency should secure consulting assistance to assess data center performance in specified functional management areas.

Our review of the data center's performance over the past year indicates that, although there have been efforts to improve the operation, serious deficiencies continue to exist. This conclusion was reached as the result of (1) interviews with data center customers, (2) discussions with private sector computing experts, and (3) a review of correspondence and reports from data center users expressing dissatisfaction with the service they are receiving. We have also discussed data center performance with staff of the federal Department of Labor, which funds the data center's largest customer, the Employment Development Department. The Department of Labor's concern with the data center's performance was formally expressed in a letter from the regional administrator of the Department of Labor's Employment and Training Administration to the agency secretary, dated November 6, 1980. In that letter, the regional administrator stated that data center performance has resulted in a situation that "... is headed for a crisis unless there is a significant change in the way that computer processing services are provided to the Employment Development Department..." Finally, we reviewed a recent report prepared by Boeing Computer Services Company (BCS), a firm retained by the data center to provide limited consulting assistance. In its report, BCS has identified deficiencies in several key management areas. Despite general acknowledgement that serious deficiencies in data center operations continue to exist, the agency has not complied with the Legislature's directive to secure additional consulting assistance.

Rapid Growth Compounds Problem

Among the problems which have hindered data center performance and resulted in poor service to customer programs and their clients are: an unstable operating environment, lack of an effective problem-resolving capability, inadequate capacity planning and management, and a sustained period of rapid growth in the absence of adequate control processes and staffing.

Table 1 illustrates the rate at which the data center has increased its expenditures.

Table 1
Rate of Growth
Health and Welfare Agency Data Center

	Personnel-Years	Change From Previous Year	Expenditures	Change From Previous Year	Cumulative Change Expenditures
1977–78	114.6[a]	—	$3,332,650[a]	—	—
1978–79	123.6	7.8%	6,336,729	90.1%	90.1%
1979–80	142.6	15.4	10,266,565	62.0	208.0
1980–81	167.7[b]	17.6	13,447,557[b]	30.9	303.5
1981–82	189.5[c]	12.9	19,469,563[c]	44.8	484.2

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

This rapid rate of expansion has made it difficult for the data center to (1) achieve a stable operating environment, and (2) develop appropriate management procedures for planning an orderly expansion.

Operation Must be Stablized

We recommend a reduction of $2,132,834 and 19 personnel-years budgeted in support of the Statewide Public Assistance Network and hospital automation projects.

Our analysis of the data center's budget indicates two major new systems for which $2,132,834 have been included in customer budgets for allocation to the data center: (1) the Department of Social Services' Statewide Public Assistance Network, ($1,230,310 and 19 personnel-years), and (2) hospital automation proposed by the Departments of Mental Health and Developmental Services, ($902,524). Unlike CAST and MEDS, which have been under development for some time and are dependent upon the data center, SPAN and hospital automation are still in the planning phase.

It has become apparent that continuous expansion of the data center increases the complexity of its operations at a time when some basic corrective measures are needed. The operation must be stablized if the data center is to provide a consistently reliable and cost-effective level of service to its customers. Accordingly, in our analysis of the Secretary of Health and Welfare budget, Item 053, we recommend that Budget Bill control language be adopted requiring the *agency* to secure outside consulting assistance to correct the deficiencies which exist. In addition, we recommend in this item that data center expansion be limited to workload growth in *existing* applications, including CAST and MEDS. This cap on expansion should remain in effect until the Legislature has determined that existing deficiencies have been corrected and center operations stabilized.

Accordingly, we recommend that $2,132,834 and 19 personnel-years budgeted in support of the SPAN and hospital automation projects be deleted from the data center's budget. We do *not*, however, recommend in this item that the funds for these projects requested in the client-departments' budget for allocation to the data center be deleted. Consequently, a reduction in the data center's spending authorization will not affect the departments' ability to obtain service elsewhere (for example, the Teale Data Center).

Although we recommend a significant reduction in the data center's proposed budget, the remaining $17,336,729 still represents an increase of $3,889,172, or 28.9 percent, over current year expenditures. This increase will provide the data center with funds for new equipment to meet workload growth, and also five new positions in the critical areas of data communications and capacity planning.

HEALTH AND WELFARE AGENCY DATA CENTER—Continued

Data Center Relocation

We recommend that authorization to lease a new computer facility be deleted from Item 413, on the basis that no funds for a new facility are budgeted.

In the current year, the data center will be completing the remodeling and expansion of its computing facility, which is located within the main Employment Development Department building complex in Sacramento. This expansion will relieve a serious crowding problem in the equipment room. Data center management indicates that the expanded facility should be sufficient to meet space requirements through 1981–82, but that additional space will be required in 1982–83.

Section 2 of Item 413 of the 1981 Budget Bill authorizes the Director of General Services, acting on behalf of the data center, to enter into a lease for the purpose of "... providing adequate space to house the *entire* Health and Welfare Agency Data Center..." (emphasis added). We recommend deletion of this authority because no funds have been included in the proposed budget to acquire a new facility. Further, any funding request for a new facility should be supported by a feasibility study report approved by the Department of Finance and prepared in accordance with Section 4920 et seq., of the State Administrative Manual.

Health and Welfare Agency

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

Item 414 from the General Fund — Budget p. HW 8

Requested 1981–82	$4,837,497
Estimated 1980–81	8,523,228
Actual 1979–80	5,055,961
Requested decrease (excluding amount for salary increases) $3,685,731 (−43.2 percent)	
Total recommended reduction	$528,714

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
414-001-001	State Operations	General	1,413,015
414-101-001	Local Assistance	General	3,212,622
414-111-001	Legislative Mandates	General	211,860
Total			$4,837,497

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

4. Preemption of Local Building Departments. Withhold recommendation on proposal to preempt local jurisdictions in the area of hospital construction standards enforcement until the administration submits a proposal identifying (1) which organization will enforce the construction standards and (2) how the program will be funded. 679

GENERAL PROGRAM STATEMENT

The Office of Statewide Health Planning and Development is responsible for developing a state health policy which assures the accessibility of needed, appropriate health services to the people of California at affordable costs. The office administers eight 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 in conjunction with the state's 14 Health Systems Agencies by developing 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 (Chapter 854, Statutes of 1976), which requires state approval of major 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 loan insurance.

5. The *Uncompensated Care program* enforces requirements that health facilities receiving federal assistance under the Hill-Burton Act provide a reasonable volume of services to persons unable to pay for those services.

6. The *Special Projects program* is responsible for developing a master plan for services to children and youth, and is engaged in a Regulations Reduction and Simplification Project and an Excess Hospital Capacity Reduction Project.

7. The *Legislative Mandates program* reimburses local hospital districts for assessment and certificate of need fees.

8. The *Administration program* provides support services to the office's other programs.

ANALYSIS AND RECOMMENDATIONS

The budget proposes appropriations of $4,837,497 from the General Fund to support the Office of Statewide Health Planning and Development (OSHPD) in 1981–82. This is a decrease of $3,685,731, or 43.2 percent, below estimated current-year expenditures. The current-year expenditure estimates, however, contain a one-time double funding of the Song-Brown Family Physician Training program. This double-funding was required to incorporate for the first time that program's funding into the Budget Act. If this appropriation is excluded from the current year estimates, the proposed budget would result in a decrease in General Fund expenditures of $683,281, or 12.4 percent, from estimated current year expenditures.

The budget also proposes expenditures of (a) $2,839,769 from the Hospital Building Account, Architecture Public Building Fund, for seismic safety review, (b) $451,712 from the Health Facilities Construction Loan Insurance Fund for administration of the Cal-Mortgage program, (c) $3,066,974 from federal funds, and (d)

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

$2,984,560 from reimbursements, primarily health facility fees.

Total expenditures from all funding sources for 1981–82 are proposed at $14,180,512, a decrease of $2,570,574, or 15.3 percent, below estimated current year expenditures. Excluding the double funding for the Song-Brown program from the current year estimates, the total proposed budget would result in an increase of $431,876, or 3.1 percent, above current year expenditure estimates. Total expenditures will increase by the amount of any salary or staff benefit increase approved for the budget year. Table 1 displays the office's program expenditure and funding sources.

Table 1
Office of Statewide Health Planning and Development
Program Expenditures and Funding Sources

Program	*Actual 1979–80*	*Estimated 1980–81*	*Proposed 1981–82*	*Percent Change*
Health planning	$1,913,043	$2,007,256	$2,269,827	+13.1%
Certificate of need	1,932,569	2,633,566	2,751,794	+4.5
Health professions development	4,006,274	7,568,302	4,496,126	−40.6
Facilities development	3,609,830	3,735,270	4,033,759	+8.0
Uncompensated care	N/A	237,643	251,312	+5.8
Special projects	379,197	357,189	165,834	−53.6
Legislative mandates	62,790	211,860	211,860	0.0
Administration (distributed)	(1,460,762)	(1,526,412)	(1,691,726)	+10.8
Totals	$11,903,703	$16,751,086	$14,180,512	−15.3%
Funding Sources				
General Fund	$5,055,961	$8,523,228	$4,837,497	−43.2%
Hospital Building Account	1,899,430	2,084,569	2,839,769	+36.2
Health Facility Construction Loan Insurance Fund	327,296	360,654	451,712	+25.2
Federal Trust Fund	3,020,003	3,171,627	3,066,974	−3.3
Reimbursements	1,601,013	2,611,008	2,984,560	+14.3

The principal changes in the budget are: (a) $745,263 from special funds to preempt local building departments' enforcement of hospital building standards, (b) discontinuation of $617,561 in one-time General Fund support for grants and loans to community health clinics for capital improvements, pursuant to Chapter 1186, Statutes of 1979, (c) continuation and expansion of the Health Professions Career Opportunity program, for a General Fund cost of $363,601, and (d) $125,908 from reimbursements to continue 4.3 positions administratively established in the current year for workload increases in the certificate of need program. Table 2 displays the proposed budget changes for all funding sources.

Table 2
Office of Statewide Health Planning and Development
Analysis of Budget Changes, 1981–82

State Operations	*General Fund*	*Special Funds*	*Federal Funds*	*Reimbursements*	*Total*
1980–81 Revised	$1,455,290	$2,445,223	$3,171,627	$2,611,008	$9,683,148
A. One-time Funding Reductions					
1. Regulations reduction project	—	—	—	−102,740	−102,740
2. HPCOP	−334,023	—	—	—	−334,023

3. Certificate of need	—	—	−57,034	−66,619	−123,653
4. Other reductions	−9,763	−63,765	−65,782	−8,545	−147,855
B. Price Adjustments	72,189	158,631	2,049	214,989	447,858
(Subtotal Baseline Adjustments)	(−271,597)	(94,866)	(−120,767)	(37,085)	(−260,413)
1981–82 Adjusted Baseline	$1,183,693	$2,540,089	$3,050,860	$2,648,093	$9,422,735
C. Budget Change Proposals					
1. Preemption of hospital code enforcement	—	745,263	—	—	745,263
2. HPCOP	298,466	—	—	—	298,466
3. Certificate of need	—	—	—	125,908	125,908
4. Regulations coordinator	6,897	15,992	20,731	14,217	57,837
5. Equipment anchorage	—	57,637	—	—	57,637
6. Health plan coordination	—	—	—	43,784	43,784
7. Facility inventory	—	14,190	—	28,810	43,000
8. HSA liaison	—	—	—	14,859	14,859
9. Excess hospital capacity project	—	—	11,796	—	11,796
10. AB 1862 implementation	—	—	10,000	—	10,000
11. Office of Administrative Law	980	1,667	2,195	1,495	6,337
12. Health manpower pilot projects	6,000	—	—	—	6,000
13. Nurse scholarships	−30,000	—	—	—	−30,000
14. Health data system	—	—	−27,211	−30,381	−57,592
D. Funding Adjustments	−53,021	−83,357	−1,397	137,775	—
(Subtotal Program Changes)	(229,322)	(751,392)	(16,114)	(336,467)	(1,333,295)
1981–82 Proposed	$1,413,015	$3,291,481	$3,066,974	$2,984,560	$10,756,030
Local Assistance					
1980–81 Revised	$7,067,938	—	—	—	$7,067,938
E. One-time Funding Reductions					
1. Chapter 1186, Statutes of 1979	−617,561	—	—	—	−617,561
2. Chapter 885, Statutes of 1979	−3,002,450	—	—	—	−3,002,450
3. Chapter 1300, Statutes of 1978	−23,445	—	—	—	−23,445
(Subtotal Changes)	(−$3,643,456)	—	—	—	(−3,643,456)
1981–82 Proposed	$3,424,482	—	—	—	$3,424,482
Total Proposed, 1981–82	$4,837,497	$3,291,481	$3,066,974	$2,984,560	$14,180,512

The budget proposes to expand the office's authorized staffing from 165.6 to 185.9 positions, a net increase of 20.3 positions. Table 3 shows how these additional positions will be used, as well as the cost of and source of funds for the positions.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

Table 3
Office of Statewide Health Planning and Development
Proposed Changes in Authorized Positions
1981–82

Description	*Positions*	*Cost*	*Funding Source*
1. Health professions career opportunity program	7.0[a]	$363,601	General Fund
2. Certificate of need	4.3[a]	125,908	Reimbursements
3. Regulations coordinator	2.0[a]	57,837	Overhead
4. Equipment anchorage	2.0[a,b]	57,637	Special Fund
5. State health plan coordination	1.0[b]	43,784	Reimbursements
6. Facility inventory	1.0[b]	43,000	Special Fund, Reimbursements
7. HSA liaison	1.0[b]	14,859	Reimbursements
8. Excess hospital capacity project	2.0[a,b]	11,796	Federal Funds
9. AB 1862 implementation	0.5[a,b]	10,000	Federal Funds
10. Health manpower pilot projects	0.5	6,000	General Fund
11. Contracts processing	0.5	0	Overhead
12. Legal counsel	−0.5	−15,192	Reimbursements
13. Health data system	−1.0	−57,592	Federal Funds
Totals	20.3	$661,638	

[a] Existing positions proposed for continuation.
[b] Proposed limited term positions.

ITEM 414-001-001: STATE OPERATIONS

Item 414-001-001 proposes a General Fund appropriation of $1,413,015 for state operations. This is a decrease of $42,275, or 2.9 percent, below estimated current year expenditures. Total expenditures for departmental support from all funding sources are proposed at $10,756,030, which is an increase of $1,072,882, or 11.1 percent, above current year estimates.

Unjustified Equipment Requests

We recommend deletion of funds budgeted for unjustified equipment requests, for a General Fund savings of $11,075.

OSHPD has budgeted $6,341 for unspecified miscellaneous equipment. The office has provided no description of or justification for this request. Consequently, we recommend that the funds be deleted.

The Health Professions Career Opportunity program (HPCOP) has budgeted $4,734 to purchase video tape cameras, recorders, and monitors to conduct training sessions. HPCOP has allocated funds in its current year budget, however, for the same purpose. Accordingly, we recommend that HPCOP's equipment request be deleted.

Compliance with Federal Health Planning Law

The federal Health Planning and Resources Development Act (P.L. 93-641, as amended by P.L. 96-79) requires the state to establish a specified health planning organization consisting of health systems agencies and state health planning agencies, and to implement procedures for health planning, certificate of need reviews, and appropriateness reviews. Currently, California's health planning and certificate of need law (Chapter 854, Statutes of 1976) fails to comply with federal requirements in three areas:

1. ***The state health planning organization is incomplete.*** P.L. 93-641 requires the establishment of a Statewide Health Coordinating Council to advise OSHPD, as the designated state health planning and development agency, and to perform other functions as specified in federal law. The Advisory Health Council currently

performs many of these functions, but California has yet to establish a SHCC performing all required duties.

2. ***The certificate of need program is insufficiently stringent.*** Chapter 854 exempts from certificate of need (CON) review most replacement and remodeling projects, projects required to comply with laws and regulations, projects necessitated due to emergencies or disasters, projects proposed by health maintenance organizations, and projects for new health services within existing facilities. Federal law allows no such exemptions, although it requires special procedures intended to expedite CON review for some categories of projects.

3. ***The state has no appropriateness review program.*** Federal law requires the HSAs and OSHPD to review at least every five years all institutional and home health services in the state, and to make findings respecting the appropriateness of those services. California has no such statewide program.

Deadline for compliance. Federal law authorizes the Department of Health and Human Services (HHS) to phase-out over a four-year period all grants provided to California under the federal Public Health Services Act, the Comprehensive Alcohol Abuse and Alcohol Prevention, Treatment and Rehabilitation Act, the Community Mental Health Centers Act, the Drug Abuse Office and Treatment Act and P.L. 93-641, if the state fails to comply with all federal requirements. The total value of these grants in the current year is approximately $600 million.

HHS has notified OSHPD that the deadline for complying with federal health planning law is January 5, 1982. Consequently, to avoid the loss of these grants, the state must establish a fully designated SHCC and implement satisfactory CON and appropriateness review programs during the 1981 legislative session. If California is still out of compliance with P.L. 93-641 on January 5, 1982 and HHS enforces that law's penalty provisions, the state will lose an estimated $150 million in federal revenues in calendar year 1982, $300 million in 1983, $450 million in 1984, and $600 million in 1985.

Fiscal consequences of compliance. Adoption of a health planning bill complying with P.L. 93-641 in the current legislative session would necessarily increase the administrative costs of OSHPD. The cost increases would occur in five areas:

1. P.L. 93-641 requires the Statewide Health Coordinating Council to perform duties not currently performed by the Advisory Health Council, including conducting public hearings on the State Health Plan, revising the State Health Plan and submitting that plan to the Governor and Legislature;
2. OSHPD's Health Planning Division would be required to assume additional responsibilities, including responsibility for reviewing the proposed use of federal funds, coordinating area implementation plans, and, generally, coordinating development of health policy with other departments;
3. Federal law requires OSHPD to conduct an inventory of health facilities;
4. California is required to implement an appropriateness review program; and
5. The elimination of existing CON exemptions will increase the workload of OSHPD's CON and legal staff significantly.

Health Systems Agency Contracts

Health Systems Agencies (HSAs) derive support from two funding sources: (a) contracts with OSHPD, which are supported by reimbursements, and (b) direct federal grants, which are determined on a capitation basis.

The budget proposes $608,096 for HSA contracts in 1981–82. This is an increase of $85,064, or 16.3 percent, over the amount provided under the current year contracts. The increase consists of (1) $60,000 for the newly designated HSA for Los Angeles County, and (2) a 7.9 percent cost-of-living adjustment for the thirteen remaining HSAs.

Currently, HSAs' federal grant capitation rate equals $0.525 per person residing in each Health Service Area. Total grants to the thirteen currently designated

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HSAs approximate $8.0 million. The amounts of the grants, however, will be reduced as the HSA grant awards are reviewed in the spring of 1981. This is because the continuing resolution for the federal 1981 HHS budget reduces HSA allocations by $23 million, which would lower the capitation rate from $0.525 to $0.32. California HSAs, therefore, face a potential loss of federal grant funds in 1981–82 totaling $2 million.

Special Studies Unit

We recommend deletion of three positions budgeted in the Special Studies Unit, for a savings of $154,038 in federal funds and reimbursements in Item 414-001-001.

Chapter 1252, Statutes of 1977 (SB 363), directed OSHPD to develop a master plan for services to children and youth. OSHPD established a Special Studies Unit in 1979–80 to conduct the study by redirecting 3.0 professional and 1.0 clerical positions from existing staff in the Health Planning and Health Professions Development divisions.

To date, this unit has published two documents—"Issues in Planning Services for California's Children and Youth" (March 1980), and "Proposed Master Plan for Services to Children and Youth" (November 1980). In addition, the unit has conducted numerous public hearings. OSHPD is revising its final proposed master plan for transmittal to the Legislature and Governor during the current fiscal year.

On October 1, 1980, OSHPD transferred one professional position in the Special Studies Unit to the Health Planning division. OSHPD has informed us that because the unit's duties relative to the master plan will expire prior to 1981–82, it intends to redirect the three remaining positions to the Health Planning and Health Professions Development divisions. The budget as submitted, however, does not redirect the positions, and OSHPD has not developed formal duty statements for the positions it intends to redirect. Until OSHPD develops these duty statements and justifies the need for additional staffing in these areas, we cannot recommend continuation of the three remaining positions. Consequently, we recommend that funding for the positions be deleted, for a savings of $154,038 in Item 414 from the Federal Trust Fund and reimbursements.

Continuation of Certificate of Need Staff

We recommend approval.

The budget proposes the continuation of 3.0 professional and 1.3 clerical positions in the Certificate of Need program. The cost of the positions in 1981–82 is $125,908, which is funded from reimbursements. The positions were established administratively in the current year on the basis of workload increases that have occurred primarily due to (a) the increased complexity of CON applications, (b) the increased use of litigation in the CON review process, and (c) expansions in the scope of CON coverage. We have reviewed OSHPD's workload data and conclude that this request is justified.

Health Professions Career Opportunity Program

We recommend deletion of seven positions requested for the Health Professions Career Opportunity Program, for a General Fund savings of $363,601 in Item 414-001-001.

The Health Professions Career Opportunity Program (HPCOP) 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. Support for HPCOP in fiscal years 1979–80 and 1980–81 has been derived from the General Fund.

The program conducts 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 to, or who have been accepted by, medical schools, (5) assisting minority applicants to graduate from public health programs, and (6) conducting research studies.

HPCOP currently has no statutory authorization. The Budget Act of 1980 requires that continuation funding for HPCOP beyond the current year be contingent upon enactment of legislation establishing specific statutory authority for the program. Although no statute has been adopted, the administration is proposing that HPCOP be continued and expanded in 1981–82. The budget proposes a General Fund appropriation of $363,601 for HPCOP, which is an increase of $29,578, or 8.9 percent, over estimated current year expenditures. The primary reason for the increase is an increase of $23,000, or 76.7 percent, in printing costs to expand circulation of HPCOP's newsletter.

Until the Legislature provides HPCOP specific legal authority as required by the Budget Act of 1980, we cannot recommend approval of the budget proposal. Accordingly, we recommend deletion of the funds budgeted, for a General Fund savings of $363,601 in Item 414-001-001.

Preemption of Local Building Department Functions

Withhold recommendation on the office's proposal to preempt local jurisdictions in the area of hospital construction standards enforcement until the administration submits a proposal identifying which organization will administer the hospital inspection program and how the program will be funded.

Following the San Fernando Valley earthquake of 1971, the Legislature adopted the Seismic Safety Act of 1972 (Chapter 1130, Statutes of 1972). Chapter 1130 authorized the then Department of Health, through a contract with the Department of General Services, to review and approve or reject all plans for the construction or alteration of any hospital building, and to observe the construction or structural alteration of any hospital. The intent of the statute was to assure, insofar as practicable, that such structures would be able to resist earthquakes and provide all necessary services to the public following a disaster.

This law was patterned after the so-called Field Act of 1933, which requires the Department of General Services to review plans for and observe the construction or structural alteration of school buildings. A central feature of the Field Act is the requirement that the state enforce all school construction standards, whether these are related to seismic safety or not. Currently, the Office of the State Architect administers the Field Act, and conducts all aspects of plan review and inspection for school buildings.

Similarly, the Seismic Safety Act expresses legislative intent to preempt local building departments in enforcing hospital building standards published in the State Building Standards Code (Title 24, California Administrative Code). As the statute is administered currently, responsibility for enforcing these standards is fragmented among several state agencies and a multitude of local jurisdictions. OSHPD reviews hospital construction plans for compliance with architectural standards relating to seismic safety, conducts on-site inspections for compliance with these standards, and performs all administrative functions required by Chapter 1130. The Office of State Architect (OSA), through its contract with OSHPD, conducts plan review and inspection duties to enforce structural seismic safety

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

standards. The activities of local building departments vary, but generally consist of plan review and inspection for compliance with electrical, structural codes, mechanical and plumbing codes, in most cases, and the issuance of building permits and certificates of occupancy and completion.

Legal opinions issued by the Legislative Counsel (dated June 4, 1977, and November 5, 1980) and the Attorney General (No. CV77/222) conclude that the existing fragmentation of responsibility for enforcing hospital building standards violates the intent of Chapter 1130. These opinions argue that since the statute is explicitly patterned after the Field Act, and since legislative intent to preempt enforcement of hospital construction standards from local jurisdiction is explicitly stated, the state must assume all plan review, inspection, and administrative duties currently performed by local jurisdictions. These new responsibilities include enforcement of all electrical, mechanical and plumbing codes (including plan review and on-site inspection), enforcement of local hospital construction standards where such standards are more restrictive than state standards, and issuance of building permits and certificates of occupancy and completion.

Budget Proposal

In a letter dated September 17, 1980, the Director of Finance, pursuant to Section 28, Budget Act of 1980, notified the Chairman of the Joint Legislative Budget Committee of her intention to establish 15 new positions in the office in order to preempt local government building departments in the enforcement of hospital building codes. Establishing these positions would cost $442,429 in fiscal year 1980–81 and $745,263 annually thereafter. The proposed positions would be supported entirely by fees paid by hospitals and deposited in the Hospital Building Account of the Architecture Public Building Fund.

After the 30-day waiting period established by Section 28 had elapsed, the administration decided *not* to establish these positions during the current year. We understand that the administration has deferred implementing the hospital inspection program until 1981–82 because it has not decided whether to locate the new staff in OSHPD or OSA.

The budget for 1981–82 proposes an appropriation of $745,263 from the Hospital Building Account, to be placed in a special item of expense in OSHPD's budget. These funds would be available to establish 15 new staff positions either in OSHPD, or in OSA through a contract with OSHPD.

Analysis of Proposal

It would appear from the Legislative Counsel's and the Attorney General's interpretation of Chapter 1130 that the state is required to implement a hospital inspection program. To do so, it must either establish new positions or contract with local or private agencies to conduct the required enforcement activities. Nevertheless, our analysis has identified several problems with the administration's specific proposal to preempt local jurisdictions. These problems are as follows:

1. ***Current Financing Arrangement is Inadequate***

The staff requested for the new program will be supported entirely by fees paid by hospitals and deposited in the Hospital Building Account of the Architecture Public Building Fund. Fees charged by OSHPD are equal to seven-tenths of one percent of the estimated cost of each construction project. This is the maximum fee allowed by law. Table 4 displays the fund's condition as of June 30, 1980, and as estimated through June 30, 1982, assuming approval of the special item of expense.

Table 4
Fund Condition—Hospital Building Account, Architecture Public Building Fund
Fiscal Years 1979–80 to 1981–82

	Actual 1979–80	*Estimated 1980–81*	*Estimated 1981–82*
Accumulated Surplus July 1	$1,570,769	$1,257,413	$861,432
Income:			
Fees	1,439,769	1,629,370	1,873,776
Interest	146,305	60,000	60,000
Totals	$1,586,074	$1,689,370	$1,933,776
Funds Available	$3,156,843	$2,946,783	$2,795,208
Expenditures	$1,899,430	$2,085,351	$2,839,769
Balance Available June 30	$1,257,413	$861,432	$−44,561

In fiscal year 1979–80, expenditures from the fund exceeded revenues by $313,356, or 19.8 percent. Despite the fact that the volume of hospital construction has declined over the past several years, neither OSHPD nor OSA has reduced its staffing. This workload decline, however, has reduced the program's operating revenues, with the consequence that the program has incurred an operating deficit. Even assuming substantial increases in hospital construction, approval of the proposed special item of expense will increase the program's operating deficit to $395,981, or 23.4 percent, in the current year, and $905,993, or 46.9 percent, in 1981–82. We estimate that under current law the account would reflect a deficit of $44,561 on June 30, 1982 after all current income and the accumulated surplus have been utilized. Consequently, OSHPD must either reduce its current rate of expenditure or receive statutory authorization to increase its fees in order to maintain the solvency of this account. We estimate that, to eliminate the projected operating deficiency, OSHPD must either receive authorization to increase seismic safety fees from 0.7 percent of the estimated construction cost to at least 1.1 percent, or make major cutbacks in programs currently funded by the Hospital Building Account.

OSHPD is seeking legislation to increase fees, but under current law the budget proposal cannot be supported by existing funding mechanisms.

2. ***No Workload Standards Exist***

The administration's proposal is not based on workload estimates, but instead appears to be based on a rough estimate or the *minimum* number of staff required to initiate preemption. OSHPD staff have informed us that reliable workload standards will not be available for at least one year.

We believe that the budget's staffing proposal may be significantly underestimated for two reasons. First, OSHPD program staff have informed us that they require a minimum of 35 professional staff to assume the added responsibilities. The Department of Finance, however, authorized only 15 new positions. Second, the budget staffing proposal of 15 positions consists exclusively of construction supervisors. No new staff are proposed to perform the added plan review duties.

Consequently, when workload standards are developed, the Legislature should be aware that it may receive a request next year for additional positions at a significant cost to a special fund which is now running a deficit on an annual basis.

3. ***Statutory Authorization Needs Clarification***

As worded, Chapter 1130 requires the state to preempt local jurisdictions only in the statute's intent language, not in its operative sections. While intent language is legally binding, the existing confusion over the state's responsibilities might be eliminated by placing preemption requirements in the statute's operative sections. Additionally, Chapter 1130 authorizes OSHPD to conduct plan review and

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inspection activities *only* through its contract with OSA. Since both OSA and OSHPD currently review plans and inspect building sites, the Legislature may wish to clarify its intent concerning the respective responsibilities of OSHPD and OSA.

4. ***Other Alternatives Have Not Been Given Adequate Consideration***

As an alternative to establishing new positions in OSHPD, the administration might have chosen to contract with the OSA, with private agencies, or with certain local jurisdictions to perform the additional code enforcement duties. Contracting with local building departments might be particularly cost-effective in the large metropolitan areas. In our judgment, the administration has not given sufficient consideration to these alternatives. No analyses of either the feasibility of contracting out or the comparative costs of various administrative arrangements have been performed.

Analyst's Recommendation

Given the opinion of the Legislative Counsel and the Attorney General, we agree that the state must proceed with a program to inspect hospitals. However, until the Legislature has clarified its intent regarding the organizational location of preemption and has authorized OSHPD to increase its fees to a realistic level where preemption is self-supporting, we cannot recommend that the administration's proposal be approved as budgeted. We therefore withhold recommendation until the administration submits a detailed proposal, no later than April 15, 1981, describing which organization will enforce the hospital construction standards, what staff will be required, and how the program will be funded. Further, we recommend adoption of the following supplemental report language:

"The Office of Statewide Health Planning and Development shall report to the Joint Legislative Budget Committee and fiscal subcommittees by March 1, 1982 on the development of a staff time reporting system and workload and staffing standards for the programs administered by the Facilities Development Division."

ITEM 414-101-001: LOCAL ASSISTANCE

Item 414-101-001 proposes a General Fund appropriation of $3,424,482 for local assistance, which is a decrease of $3,643,456, or 51.5 percent, below estimated current year expenditures. The primary components of this decrease are (a) elimination of one-time double funding for the Song-Brown program (−$3,002,450), and (b) expiration of one-time funding for grants and loans to community health clinics (−$617,561).

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 designated areas of unmet need. Chapter 1176 also established the Health Manpower Policy Commission and authorized it to determine areas of unmet need and to 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 include nurse practitioners. Chapter 170, Statutes of 1977, Chapter 1300, Statutes of 1978, and Chapter 885, Statutes of 1979, further expanded

Table 5
Song-Brown Family Physician Training Program
Allocations 1973–81 and Proposed 1982–85

	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
Budget Bill of 1980	1,786,365	450,845	567,100	408,312	3,212,622	—	3,212,622	1981–82–1983–84
Proposed Budget Bill of 1981	1,786,365	450,845	567,100	408,312	3,212,622	—	3,212,622	1982–83–1984–85
Totals	$11,747,958	$3,160,540	$2,134,200	$2,224,996	$19,267,694	$556,000	$19,823,694	

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

the program to permit the commission to fund special projects which are primarily in undergraduate schools and programs that train primary health care teams.

In the past, the program has received funding through appropriations contained in separate legislation, rather than through the annual Budget Act. This legislation authorized the commission to encumber the funds during specified three-year periods. This assured institutions that, once a three-year training slot had been created, funding would be provided during the entire training period. 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 continuation funding.

The Budget Act of 1980 contains funds appropriated by Chapter 885, Statutes of 1979, for residencies starting July 1, 1980, and funds appropriated through the Budget Act for residencies beginning July 1, 1981. The proposed budget appropriates $3,212,622 from the General Fund for residencies and block grant programs beginning July 1, 1982. This is the same amount appropriated by the Budget Act of 1980. Table 5 displays the past, current, and proposed General Fund support for the program.

Currently, the capitation grant for each three-year medical residency slot is $47,160. The annual rate for a physician assistant or nurse practitioner slot is $8,750. At these rates, funds appropriated by the Budget Act of 1980 are sufficient to support the equivalent of 38 three-year medical residencies and 51 physician assistant/nurse practitioner slots. The commission is increasing the three-year capitation grant amount to $48,240, for residencies beginning July 1, 1982. Under OSHPD's proposed expenditure plan, the proposed appropriation is sufficient to fund the equivalent of 37 three-year residencies. Therefore, to maintain the same number of residency slots and pay increased capitation amounts starting in 1982–83, OSHPD must reduce block grant expenditures.

ITEM 414-111-001: LEGISLATIVE MANDATES

We recommend approval.

Item 414-111-001 proposes $211,860 for legislative mandates in 1981–82, which is identical to the current year appropriation. This item reimburses local hospital districts for assessment and certificate-of-need fees paid to the office.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—REVERSION

Item 414-495 from the General Fund — Budget p. HW 8

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item proposes to allow unencumbered funds appropriated by Chapter 885, Statutes of 1979, to revert to the General Fund. Chapter 885 appropriated $3,108,450 to the Office of Statewide Health Planning and Development to administer family physician, nurse practioner, and physician assistant training programs in fiscal years 1980–81 through 1982–83. The appropriation consisted of $3,002,450 for local assistance and $106,000 for administration in office headquarters.

The Budget Act of 1980 incorporated funding for both local assistance and state operations into the Budget Act. In all subsequent fiscal years, the Budget Act will appropriate funds for local assistance over a three-year period and funds for state operations on an annual basis. The Chapter 885 appropriations for state operations in 1981–82 and 1982–83, therefore, are unnecessary. This item would allow the unexpended funds to revert to the General Fund.

Health and Welfare Agency
DEPARTMENT OF AGING

Item 416 from the General Fund — Budget p. HW 17

Requested 1981–82	$5,048,002
Estimated 1980–81	1,670,895
Actual 1979–80	6,581,398
Requested increase (excluding amount for salary increases) $3,377,107 (+202.1 percent)	
Total recommended reduction	None
Total recommendation pending	$3,153,936

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

DEPARTMENT OF AGING—Continued

port language requiring Department of Finance to prepare separate budget displays and Budget Bill items for the commission and the department beginning in 1982–83 in order to improve the commission's accountability.

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 federal Older Americans Act (OAA). The department administers federal funds to support local social and nutrition services for the elderly, state and local administration, staff training, and senior employment programs. CDA is composed of two major subdivisions: program services and administration.

The local network for delivery of services consists of planning and coordinating bodies called area agencies on aging (AAAs, often referred to as "triple As"). In California, there are 33 AAAs, one in each planning and service area. These service areas have been designated by CDA pursuant to the OAA, as amended in 1978.

California Commission on Aging

The California Commission on Aging (CCOA) 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 CDA and to serve as the principal state advocate on behalf of older persons. Although the commission is independent of CDA, it receives administrative services from the department.

The commission is statutorily authorized to sponsor and coordinate a Statehouse Conference on Aging in the current year (April 1981) and the California Senior Legislature in the budget year (July 1981).

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $5,048,002 from the General Fund for support of the California Department of Aging (CDA) in 1981–82. This is an increase of $3,377,107, or 202.1 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 program expenditures, including expenditures from reimbursements, are projected at $78,803,855, a decrease of $745,432, or 0.9 percent, below estimated current year expenditures.

Table 1 details the changes in the department's proposed budget for 1981–82. The adjustments to the department's *current year base budget* include (1) increased personnel costs ($27,509 General Fund, $81,815 federal), (2) price increases ($14,477 General Fund, $334,419 federal), and (3) funding source adjustments ($146,130 General Fund, −$25,000 State Transportation Fund, −$1,727,592 federal funds, and −$2,890,466 Nutrition Reserve Fund).

The budget proposes the following 1981–82 increases: (1) nutrition program expansion ($3,153,936 General Fund) and (2) 4.5 new positions, including a staff attorney and half-time legal steno ($21,371 General Fund, $39,194 federal), an arts advisor ($25,882 federal funds, $14,113 reimbursements), a clerical position in the fiscal branch ($6,842 General Fund, $12,548 federal), and a clerical position in the planning/coordination branch ($6,842 General Fund, $12,548 federal).

A total of $266,903 in existing resources is proposed for redirection from current year activities to support the department's program change proposals. Budget documents do not indicate what portion of this amount is in existing General Fund support. Eight positions (seven professional and one clerical) are proposed for redirection from the grants management and technical assistance functions as

follows: four professionals to increase coordination specialization ($143,820), one professional to increase legislative liaison service ($33,268), and two professionals and one clerical to form a program evaluation unit ($89,815).

Table 1
Department of Aging
Proposed 1981–82 Budget Changes
All Funds

	General	*State Transportation*	*Federal*	*Nutrition Reserve*	*Reimbursements*	*Total*
1980–81 Current Year Revised	$1,670,895	$25,000	$74,685,426	$3,165,466	$2,500	$79,549,287
1. Baseline adjustments						
a. Increase in existing personnel costs	27,509	—	81,815	—	—	109,324
1. Salary adjustments	(22,968)	—	(59,758)	—	—	(82,726)
2. Salary savings adjustment	(−468)	—	(−1,216)	—	—	(−1,684)
3. Staff benefits	(5,009)	—	(23,273)	—	—	(28,282)
b. Price increase	14,477	—	334,419	—	—	348,896
c. Funding source adjustments	146,130	−25,000	−1,727,592	−2,890,466	—	−4,496,928
1. Nonrecurring items (Chapters 1199/77, 1121 and 1122/79)	(−388,870)	(−25,000)	—	—	—	(−413,870)
2. Reduction in available federal funds	—	—	(−1,727,592)	—	—	(−1,727,592)
3. Nutrition Reserve Fund	—	—	—	(−2,890,466)	—	(−2,890,466)
4. Chapters 1121 and 1122/79	(535,000)	—	—	—	—	(535,000)
Total Baseline Adjustments	$188,116	−$25,000	−$1,311,358	−$2,890,466	—	−$4,038,708
2. Program Change Proposals						
a. Nutrition program expansion	3,153,936	—	—	—	—	3,153,936
b. Staff attorney and support	21,371	—	39,194	—	—	60,565
c. Arts advisor	—	—	25,882	—	14,113	39,995
d. Fiscal support	6,842	—	12,548	—	—	19,390
e. Planning/coordination specialists and support	6,842	—	12,548	—	—	19,390 (143,820)[a]
f. Legislative liaison	—	—	—	—	—	(33,268)[a]
g. Program evaluators	—	—	—	—	—	(89,815)[a]
Total program changes	$3,188,991	—	$90,172	—	$14,113	$3,293,276
Total budget changes	$3,377,107	−$25,000	−$1,221,186	−$2,890,466	$14,113	−$745,432
1981–82 Proposed Expenditures	$5,048,002	—	$73,464,240	$275,000	$16,613	$78,803,855
Total increase						
Amount	$3,377,107	−$25,000	−$1,221,186	−$2,890,466	$14,113	−$745,432
Percent	202.1%	−100%	−1.6%	−91.3%	564.5%	−0.9%

[a] Redirected funds.

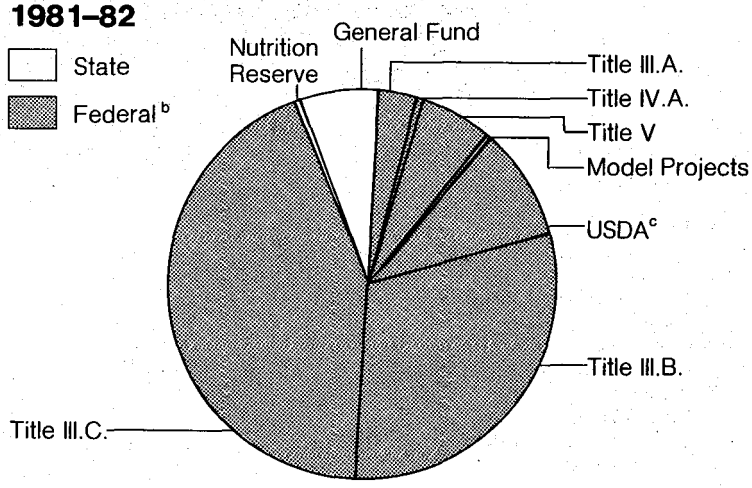
Funding Sources

Of approximately $78.8 million proposed for expenditure in the budget year, $73.5 million, or 93.2 percent, is from federal sources. State funds account for the remaining 6.8 percent of the budget, as shown in Chart 1.

DEPARTMENT OF AGING—Continued

Chart 1

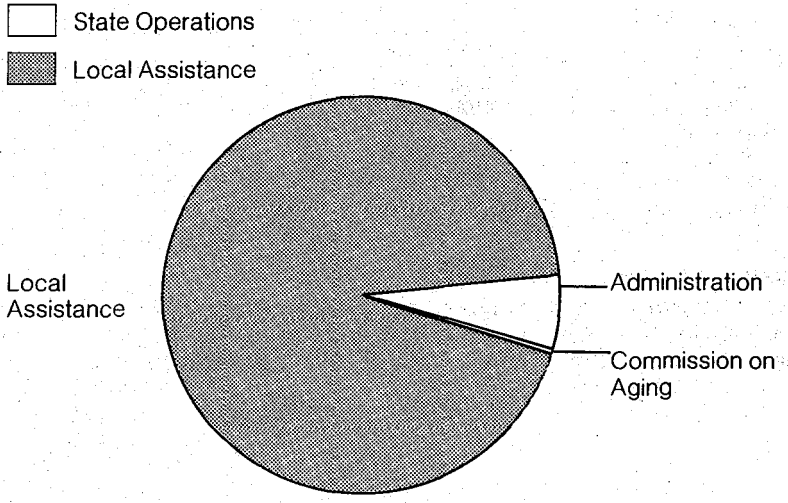
Department of Aging
Funding by Source: $78,787,242[a]
1981–82



[a] Excludes reimbursements.
[b] Older Americans Act unless otherwise noted.
[c] U. S. Department of Agriculture.

Chart 2

Department of Aging
Proposed Expenditures: $78,803,855
1981–82 (all funds)



Program Expenditures

Chart 2 details proposed program expenditures in the budget year. Area agencies on aging will expend 93.7 percent of the department's budget in the local service delivery network. State operations constitute 6.3 percent of the proposed 1981–82 expenditures.

Proposed New Positions

The 1980 Budget Act authorized 132.8 positions in the California Department of Aging. During the current year, the department administratively established 1.6 personnel-years of temporary help and 1 position in the Commission on Aging to assist with preparations for the commission's participation in the White House Conference on Aging. The department is proposing to establish 4.5 new positions in 1981–82: 1 staff attorney, 0.5 legal steno, 1 arts advisor, 1 clerical position for the fiscal branch, and 1 clerical position for the planning/coordination branch. Thus, a total of 137.3 authorized positions is proposed for the budget year.

IMPACT OF RECENT LEGISLATION

Older Californians Act

Chapter 912, Statutes of 1980 (AB 2975), establishes a framework for improved coordination of services to the state's three million persons aged 60 and older. Known as the "Older Californians Act," the measure designates the California Department of Aging (CDA) as the lead agency responsible for coordinating the administration of 100 programs for the elderly which are currently administered independently by 42 different departments. Fourteen departments are named in the legislation, and their coordination responsibilities are specified. In addition, the act declares that *all* state agencies and departments are required to "consult with the Department of Aging prior to the implementation of policies or services which impact the older population."

Chapter 912 imposes several new mandates on the Department of Aging with respect to specified state-level coordination activities. It also requires the department to conduct research and to develop and maintain various data banks and management information systems. CDA is authorized to redirect its existing resources over a period of 18 months (January 1, 1981 through June 30, 1982) in order to comply with the provisions of the act.

Brown Bag Programs

Chapter 1345, Statutes of 1980 (AB 2895), appropriated $745,000 from the Nutrition Reserve Fund to the Department of Aging for the establishment and support of "brown bag" programs throughout the state. A brown bag program organizes opportunities for senior citizens to collect fresh fruit, vegetables, and other foods which would otherwise go unharvested. These foods are distributed to needy seniors. The $745,000 appropriation will be available to CDA for three years.

Chapter 1345 requires the Legislative Analyst to report on the efficiency of the brown bag program by December 31, 1982, and to recommend at that time whether to continue this program as a California adjunct to federally-sponsored services for the elderly.

Nutrition and Volunteer Services Program for Senior Citizens

Chapter 1292, Statutes of 1980 (AB 2954), extended the senior nutrition and volunteer services (SNVS) demonstration project from December 31, 1980 to June 30, 1981. The project provides meals to senior citizens who volunteer their services to community projects.

Chapter 1292 appropriated $200,000 from the Nutrition Reserve Fund to the

DEPARTMENT OF AGING—Continued

Department of Aging for support and administration of the SNVS project through June 30, 1981. The department's evaluation report on the six pilot sites (two each in Humboldt, Sacramento, and San Diego Counties) was to have been submitted to the Legislature and the Governor no later than February 1, 1981.

Nutrition Reserve Fund

Chapter 1020, Statutes of 1980 (AB 2329), clarified legislative intent with respect to expenditures from the Nutrition Reserve Fund (NRF) established by Chapter 1189, Statutes of 1979 (AB 987). Chapter 1189 appropriated $5 million from the General Fund, without regard to fiscal year, for transfer to the NRF. Specifically, Chapter 1020:

1. Prohibits any nutrition project from receiving more than one allocation from the NRF during any given grant period, and requires area agencies on aging (AAAs) to review requests for allocations from the NRF before such requests are submitted to CDA.
2. Provides that, to the extent funds are available in the initial appropriation of $5 million, NRF monies may be used for increased costs per meal and increased numbers of participants in existing projects.
3. Provides that $1 million from the NRF shall constitute a revolving loan account from which CDA may extend interest-free loans of up to $300,000 to any one nutrition project.
4. Requires nutrition projects requesting allocations from the NRF to seek from local sources an amount equal to 5 percent of each requested allocation.
5. Permits the Department of Aging to allocate funds from the NRF, as necessary, to meet new federal requirements to increase the state's portion of the nonfederal match from 10 percent to 15 percent (effective October 1, 1980).
6. Requires the Department of Aging to report to the Legislature and the Department of Finance by December 31 of each year, instead of March 1, on its findings and recommendations regarding those nutrition projects which received NRF assistance.

LEGISLATIVE FOLLOW-UP

The Supplemental Report of the 1980 Budget Act required the administration to:

1. Evaluate the accounting and reporting systems in the California Department of Aging (CDA);
2. Assist CDA in developing data processing applications for program administration;
3. Submit evidence of CDA's timely fiscal reports to the federal government;
4. Report on CDA's progress with respect to implementation of the proposed "modified reimbursement system;"
5. Reallocate CDA's unexpended funds through a request for proposals (RFP) process;
6. Establish effective fiscal management practices in the area agencies on aging;
7. Improve coordination and communication between CDA and the nutrition projects;
8. Collect and analyze program data; and
9. Report on how CDA's internal organizational structure facilitates compliance with federal mandates.

Our review of the administration's response to each requirement contained in the Supplemental Report of the 1980 Budget Act follows.

Accounting and Reporting Systems

In a memorandum dated November 18, 1980, the Director of Finance notified the Legislature that the Department of Finance's Financial and Performance Accountability (FPA) unit had completed its review of CDA's accounting and reporting systems. FPA reported that the department's incomplete accounting records, lack of defined duties and written procedures, and high employee turnover and inexperienced personnel in the accounting office have led to a "general lack of fiscal control."

FPA further reported that, while CDA has established some, but not all, of the basic accounting records required by the State of California's uniform accounting system, the entries in the existing records do not comply with the procedures suggested in the State Administrative Manual (SAM). Consequently, the department cannot easily find or correct errors, nor can it prepare financial statements. Among records CDA does not maintain are cash receipts, cash disbursements, invoices, and the State Controller's transfer registers.

The Director of Finance indicated that CDA's difficulties are similar to accounting problems in other state departments. She indicated further that accounting deficiencies are "especially critical" due to the forthcoming implementation of the California Fiscal Information System (CFIS). Our analysis indicates that CDA will require special assistance in converting its existing accounting and reporting systems to automated formats suitable for CFIS.

Data Processing

The State Office of Information Technology (SOIT) was directed by the Legislature in the Supplemental Report of the 1980 Budget Act to assist CDA in the "development of data processing applications for program administration." Instead, CDA conducted a "self-audit" of its data needs and subsequently contracted with a consultant to automate CDA's *existing* data analysis, accounting, and fiscal reporting systems. The consultant has not investigated the requirements of the California Fiscal Information System so as to assure that CDA's automated management information system will be compatible with CFIS.

Our analysis of the department's existing systems indicates, as suggested earlier, that prior coordination will be required in order to assure that CDA will be ready for the CFIS conversion by 1982–83 as scheduled.

Timely Fiscal Reports to the Federal Government

The CDA reported in a written document submitted to the Legislature on December 19, 1980, that the department mailed its fiscal report on the quarter ending September 30, 1980 to the Administration on Aging (AOA) Regional Office on November 3, 1980. The department failed to mention that AOA rejected that report as inaccurate. On December 8, 1980, AOA received the third version of the fiscal report that was due on October 31. Although AOA accepted the third version, the regional director nevertheless required additional changes in the reported allotments on the department's submittal.

"Modified Reimbursement"

With respect to CDA's progress in implementing a new payment system, referred to as "modified reimbursement," the department provided extensive information in its December 19 submittal to the Legislature on steps it has taken toward implementation of that system. As indicated in our *Analysis of the 1980 Budget Bill* (page 657), CDA advised the Legislature that the new payment system would be in place by April 1, 1980. During hearings on the 1980–81 budget, the department revised this target date for implementation to October 1, 1980.

On December 31, 1980, however, CDA advised us that its current reimburse-

DEPARTMENT OF AGING—Continued

ment system is the same as that utilized one year ago and that "modified reimbursement" has not been implemented. We are unable to advise the Legislature regarding changes the department may be planning with respect to its reimbursement system.

Reallocation of Unexpended Funds

We discuss the department's response to the Legislature's requirement that unexpended funds be reallocated through a request for proposals process in our analysis of CDA's funding uncertainties (page 696).

Fiscal Management in the Area Agencies on Aging

The Legislature required that CDA establish effective fiscal management in the area agencies on aging (AAAs), and specifically required the department to assure that the AAAs had developed sanction policies.

The department's December 19 document provides a summary of CDA's own sanction policy and notice of a policy memorandum which was issued to the AAAs in June 1980, requiring all AAAs to have sanction policies and procedures in place by October 1, 1980.

CDA's Coordination and Communication with Nutrition Projects

The Department of Aging advises that it has improved its coordination and communication with nutrition projects by sending the following information directly to nutrition project directors, as well as to AAA directors: (a) CDA discussion papers on proposed policies, or policy changes, (b) communications from the federal Administration on Aging, and (c) copies of the department's instructions and memoranda to the AAA directors. In addition, CDA has required that AAAs obtain input specifically from the nutrition projects in completing their area plans.

Collection and Analysis of Program Data

Since CDA did not include a response in its December 19 submittal to the Legislature's requirement that the department collect and analyze program data, we asked the department to describe orally its statistical data analysis procedures. The department assured us that data are collected from the AAAs and analyzed by CDA. This function is performed, however, by more than one internal division. CDA advised us that it is difficult, as a result of this diffusion of responsibility, to produce timely reports for planning purposes.

Our analysis indicates that the department's quality control with respect to nutrition services reporting is deficient. In a November 5, 1980 memorandum accompanying the most recent statistical report on nutrition services, for example, the CDA analyst questioned the validity of the data reported by the AAAs. He noted that one AAA reported serving a larger number of seniors than the number of seniors known to be living in that planning and service area. Another AAA reported an increase of unduplicated persons served in the fourth quarter that exceeded the cumulative total for the first three quarters.

Our analysis indicates that CDA lacks the ability to achieve a level of quality control which is adequate to assure that the effort and expense involved in performing these tasks yield accountability or planning benefits to either the department itself or to the AAAs.

CDA's Organizational Structure

Over a period of six years, various executive and legislative branch agencies have identified that CDA has a persistent internal control problem: the department lacks clear lines of authority and fixing of responsibility. The same agencies have offered recommendations for corrective action. Yet, in our recent discussions with the department, high level staff at CDA have acknowledged that the department's performance still is hampered by "not knowing who is supposed to do what, when."

In the Supplemental Report of the 1980 Budget Act, the Legislature required the Department of Aging to submit its organization chart and to indicate how its internal structure facilitates CDA's compliance with federal requirements. The supplemental report language specified that CDA should identify lines of authority within the department and the organizational units responsible for major program goals.

CDA's December 19 submittal to the Legislature does include an organization chart, and includes a limited discussion of the department's own perceptions of its structural deficiencies. The department indicates that it will submit a new organizational plan to the Legislature by March 31, 1981.

CDA's submittal is silent, however, on the issue of establishing clear lines of authority and fixing responsibility for compliance with federal mandates. Various administrative and legislative agencies have studied CDA's internal management and operations. We have reviewed 17 reports issued by six agencies over an eight-year period, from 1973 to 1980. Our analysis of 275 recommendations made by these agencies indicates that the two most frequently criticized general aspects of administration in CDA have been, and continue to be, fiscal management and organizational structure. We are unable to advise the Legislature why the administration has found neither the recommendations by various state and federal administrative agencies nor the Legislature's requirements as expressed in supplemental reports of the budget acts a compelling basis for taking corrective action.

Therefore, in our analysis of Item 053 (Secretary of Health and Welfare), we have recommended that the Secretary of the Health and Welfare Agency report to the fiscal committees during budget hearings on steps his office is taking to correct the operations and fiscal management deficiencies in the Department of Aging.

STATE OPERATIONS AND FISCAL MANAGEMENT

Funding Uncertainties

We recommend that the Department of Aging report to the fiscal subcommittees during budget hearings regarding the sufficiency of the proposed budget to support the existing level of social and nutrition services in local aging programs in 1981–82.

Background. As we reported earlier in this analysis, the department's accounting and fiscal reporting systems are unable to produce timely expenditure data. As a result, CDA is perpetually uncertain of whether it has unspent funds which are available for reallocation. For the same reason, we remain unable to advise the Legislature with any acceptable degree of accuracy as to the Department of Aging's current financial status.

Our review of CDA's existing fiscal management practices indicates that expenditure data reported to the department by the programs it monitors are *projections,* and do not reflect actual expenditures. As a result, CDA (1) advances payments which sometimes are in excess of need, (2) does not adjust allocations to reflect grantees' demonstrated ability to spend, (3) does not have accurate expenditure reports, and (4) permits some grantees to end their grant periods with cash on hand which they had *projected* they would spend.

DEPARTMENT OF AGING—Continued

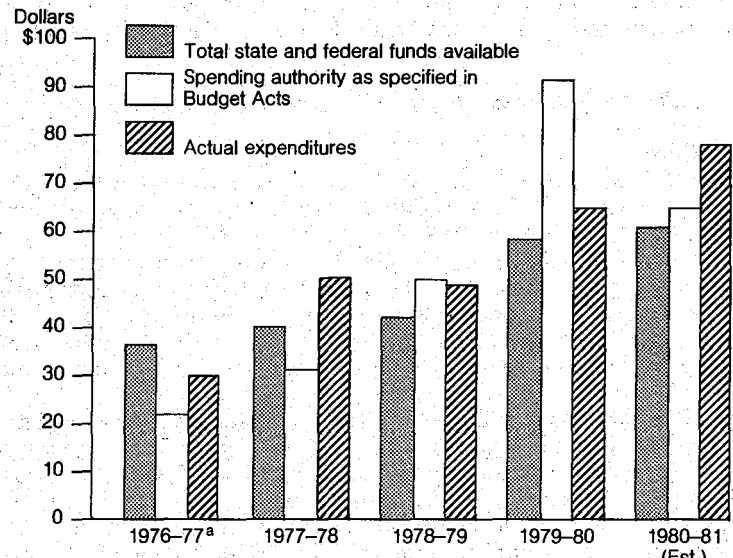
Another factor making it difficult for the Legislature to monitor CDA's fiscal performance is the gap between federal funds the department receives each federal fiscal year and the cumulative total amount of these funds actually available for expenditure in any given state fiscal year. In past years, CDA frequently received large unanticipated increases in federal funds after the state's budget was enacted. This also contributed to the excess cash on hand problem, noted above.

Accelerated Spending. In 1976–77, CDA developed a policy referred to as "accelerated spending" in order to spend down the large unanticipated increases in federal funds. As a result of this accelerated spending, the department has been spending more than it has been receiving in annual state and federal appropriations since 1977–78.

Accelerated spending took the form of annual allocation supplements to the grantees. Our review of a sampling of documents the department has issued to authorize expenditures from these one-time-only federal funds indicates that an undetermined portion of expenditures has been approved for increases in *ongoing* operating costs, including meal services, salary and staff benefit increases, and cost adjustments for inflation.

Chart 3 shows that the department's expenditures have exceeded not only its appropriations, but also its *spending authority*, as specified in the Budget Acts, in three of the past five years. Our review indicates that the Legislature did not receive prior notification that the department had received and was planning to spend additional funds that were not anticipated at the time the Legislature passed the Budget Bill. Such prior notification is required by Section 28 of the Budget Act whenever an executive department initiates new programs or increases the level of service provided by an existing program beyond the level contemplated by the Budget Act.

Chart 3
Department of Aging: Fund Availability and Actual Expenditures, 1976–77 to 1980–81
(in millions)



[a] Includes fifth quarter federal funding to provide for transition to new federal fiscal year begining October 1.

Program Impacts. In our *Analysis of the 1980 Budget Bill,* we advised the Legislature that there was an undetermined amount of unexpended federal funds in CDA's budget. Subsequently, the Legislature required CDA, in the Supplemental Report of the 1980 Budget Act, to release funds from its unexpended balance through a request for proposals (RFP) process.

CDA advised the Legislature on December 31 that it had not initiated an RFP process, because the department no longer had an unexpended balance. We have been unable to verify the department's conclusion because of the fiscal management problems noted earlier.

If the department has indeed exhausted its unexpended balance and "one-time-only" supplements do not become available to CDA's grantees in the budget year, it may be necessary for some grantees to reduce their present levels of service. Without the supplements, some of CDA's grantees would either have to reduce expenditures to a level that could be supported by *current* revenues or seek additional funds.

The department's apparent incapacity to correct its fiscal management deficiencies thwarts the Legislature's ability to assure California taxpayers that tax revenues appropriated for aging programs in this state are being competently administered and expended in a timely fashion.

To permit the Legislature to make appropriate funding decisions with respect to CDA's budget for 1981–82, we recommend that the Department of Aging report to the fiscal subcommittees during budget hearings regarding the sufficiency of the proposed budget to fund the *existing* level of social and nutrition services in local aging programs in 1981–82.

State Match

We withhold recommendation on the administration's proposal to augment the Department of Aging's General Fund support by $3,153,936 in order to meet federal requirements for an increase in state match, pending receipt of information specifying the basis for and method of calculating the amount proposed for expenditure in 1981–82.

Background. The 1978 amendments to the Older Americans Act (OAA) of 1965 required that the state increase the nonfederal share of program expenditures for social and nutrition services funded under Title III of the OAA. Prior to federal fiscal year 1981 (October 1, 1980–September 30, 1981), the OAA funding ratio was 90 percent federal, 10 percent nonfederal. Beginning in the current year, the new funding ratio is 85 percent federal, 15 percent nonfederal. The additional 5 percent must come from state rather than local sources.

The Department of Aging did not request a General Fund augmentation for the current year to meet this federal requirement. Instead, the 1980–81 budget proposed to count as the match a portion of program funds which are targeted for elderly clients but administered by departments other than CDA. The administration identified $63,975,000 provided by the Department of Social Services for in-home supportive services, for example, as a source for the state match, because 70 percent of the program's clients are over the age of 60.

In a letter dated April 17, 1980, the regional director of the Administration on Aging (AOA) notified CDA of the final regulations regarding the new state match. AOA concluded that costs incurred by departments other than CDA would *not* meet the federal matching requirement. Specifically, AOA advised the department that the state share of Title III program expenditures must be allowable costs and that, in order to be allowable, costs must be incurred under one of the areas of expenditures defined in state plan administration, area plan administration, or social and nutrition services.

Nutrition Reserve Fund. Chapter 1020, Statutes of 1980 (AB 2329), amended

DEPARTMENT OF AGING—Continued

existing law governing California's $5 million Nutrition Reserve Fund, which was established by Chapter 1189, Statutes of 1979 (AB 987). Chapter 1020 specifically authorized the department to allocate funds from the NRF to meet the new federal requirement to increase the state's portion of nonfederal match from 10 percent to 15 percent. The administration exercised this option and authorized $2,440,466 for this purpose in the current year.

The administration has advised us that the Nutrition Reserve Fund (NRF) will be nearly depleted by June 30, 1981. As shown in Table 2, the administration is projecting a 1980–81 year-end balance of $275,000.

Table 2
Expenditures from the Nutrition Reserve Fund
1979–80 and 1980–81

Purpose of Expenditure	*Amount*	*Percent*
1979–80		
Cover shortfall in multiple nutrition programs	$284,534	5.7%
1980–81		
State match requirement	2,440,466	48.8
Senior nutrition and volunteer services	200,000	4.0
HUD congregate meal service	55,000	1.1
Special Expenditures		
Revolving loan account [a]	1,000,000	20.0
Brown bag program [b]	745,000	14.9
Balance June 30, 1981	275,000	5.5
Totals	$5,000,000	100.0%

[a] Available in 1981–82 and subsequent years per Chapter 1020, Statutes of 1980.
[b] Chapter 1345, Statutes of 1980, appropriated this amount for a three-year period.
Source: Department of Aging

The decision to provide the required state match from the Nutrition Reserve Fund has limited the state's options. Whereas there might have been an opportunity to provide funding for a combination of social *and* nutrition services, the expectation generated by expending the new state match from the NRF is that only nutrition services will continue to receive the General Fund augmentation in 1981–82. Indeed, CDA has proposed its General Fund increase exclusively for "nutrition program expansion."

State Match Amount. The department estimates that $2,440,466 from the NRF will be required to meet the match requirement in the current year. Our analysis of the department's estimates of current year federal allocations indicates that the state's 5 percent share of total program expenditures in 1980–81 should not exceed $2,210,148. We are unable to advise the Legislature why the department is proposing Nutrition Reserve Fund expenditures during the current year which are $230,318 more than required.

The department is requesting a General Fund augmentation of $3,153,936 to meet the match requirement in 1981–82. This amount assumes a 7 percent increase in the department's Title III allocation. At the time this analysis was written, we were unable to determine the department's basis for and method of calculating the projected need for General Fund support.

Based on our review of matching requirements in the current year, we withhold recommendation on the administration's proposal to augment the Department of Aging's budget by $3,153,936 from the General Fund, pending receipt of information specifying the basis for and method of calculating the amount proposed for the state match in 1981–82.

Administration's Restrictions on Nutrition Services Spending

We recommend deletion of the proposed Budget Bill language from Items 416-001-001 through 416-001-890, because the proposed language is beyond the department's direct authority to implement and is contrary to previous expressions of legislative intent.

The 1981 Budget Bill contains control language which would require the Department of Aging on a quarterly basis in 1981–82 to (a) identify each nutrition services provider which has overspent its annualized allotment, and (b) reduce the level of meal services for senior citizens provided by such contractors.

We share the administration's concern that the department should monitor the timely expenditure of funds and hold contractors responsible for delivering agreed upon levels of service. Our analysis indicates, however, that the proposed Budget Bill language is beyond the Department of Aging's direct authority to implement, and is contrary to previous expressions of legislative intent.

Authority. CDA is prohibited by the 1978 amendments to the Older Americans Act from contracting with or monitoring the nutrition projects directly. Changes in federal law require that these responsibilities must be assumed by the area agencies on aging. Consequently, the AAAs, rather than the department, will be the nutrition projects' contract monitors in 1981–82.

This transfer of authority was technically accomplished as of October 1, 1980. Consequently, we conclude that the degree of control required by the proposed Budget Bill language may not be possible to achieve.

Legislative Intent. Our analysis indicates that including this provision in the Budget Bill would be contrary to previous expressions of legislative intent. Specifically, Chapter 1020, Statutes of 1980 (AB 2329), provided that expenditures from the Nutrition Reserve Fund may be used to (a) meet the increased costs per meal resulting from inflation, and (b) permit meal services to an increased number of participants in existing projects.

Some nutrition projects experience seasonal fluctuations in the numbers of participants who arrive at the sites each day. In others, continuing inflation appears to result in an increased number of senior citizens who choose to supplement their fixed incomes by participating in the state's nutrition program. The proposed funding control mechanism precludes making allowances for these kinds of fluctuations in the number of meals served by individual providers.

The Legislature's stated intent in Chapter 1020 was to provide sufficient resources to the nutrition projects to meet the changing needs of the senior population for nutrition services, to the extent that *sufficient resources* are available. We share the administration's concern that when nutrition projects experience funding shortfalls due to financial management deficiencies, the department should have the capacity to take corrective action. We conclude, however, that to the extent the nutrition projects "overspend" their contracts during a single quarter of the fiscal year, the proposed funding control mechanism, by reducing meal services on the basis of *projected* overspending, would be contrary to previous expressions of legislative intent.

Therefore we recommend deletion of the proposed Budget Bill language from Items 416-001-001 through 416-001-890.

California Commission on Aging

We recommend adoption of supplemental report language requiring the Department of Finance to prepare separate budget displays and Budget Bill items for the Commission on Aging and the Department of Aging, beginning in 1982–83, to improve the commission's ability to account for its expenditures.

The California Commission on Aging (CCOA) is an independent advisory body which receives its financial services from the Department of Aging. In a recent opinion, the Attorney General advised the commission that the department has

DEPARTMENT OF AGING—Continued

"no authority over the Commission on Aging's budget." Nevertheless, the commission has experienced difficulties with respect to CDA's control over its fiscal affairs.

Commission's Financial Difficulties. At the November 6, 1980 meeting of the commission, the executive secretary reported to the commission members that, four months into the fiscal year, CDA still had not given the commission a final operating budget for 1980–81. Furthermore, by the November 6 meeting, the department had not yet closed out the commission's 1979–80 budget.

The executive secretary also reported that he had been notified by selected creditors that the commission's unpaid bills were being turned over to collection agencies. Moreover, in October 1980, a commercial airline temporarily suspended CCOA's ticket account because prior fiscal year bills had not been paid.

Recommendation. Establishing the California Commission on Aging's appropriations as separate items in the Budget Bill will not of itself improve the fiscal services provided to the commission by the Department of Aging. Nevertheless, our analysis indicates that the commission's ability to account to the Legislature for its expenditures would be enhanced by the establishment of separate budgets and accounts for the commission and the department.

Therefore we recommend adoption of the following supplemental report language:

"The Department of Finance shall (a) prepare a budget display for the California Commission on Aging which is independent of the Department of Aging's budget display, beginning in the 1982–83 Governor's Budget, and (b) identify the commission's appropriations items separately from the department's appropriations items in the 1982–83 Budget Bill."

Health and Welfare Agency

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

Item 420 from the General Fund — Budget p. HW 23

Requested 1981–82	$68,756,619
Estimated 1980–81	68,412,357
Actual 1979–80	59,575,415
Requested increase (excluding amount for salary increases) $344,262 (+0.5 percent)	
Total recommended reduction	$507,457

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
420-001-001—Support		General	$6,749,632
420-101-001—Local Assistance		General	62,006,987
Total			$68,756,619

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. ***Salary Savings. Reduce by $417,093.*** Recommend an 8.9 percent salary savings rate, for General Fund savings of $417,093, to prevent overbudgeting for personnel costs. — 703

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 is composed of the Divisions of Administration, Alcohol Programs, and Drug Programs.

State Advisory Boards

The State Advisory Board on Alcohol-Related Problems was reconstituted by provisions in Chapter 679, Statutes of 1979 (AB 272). The board consists of 15 members: five appointed by the Governor, five appointed by the Senate Rules Committee, and five appointed by the Speaker of the Assembly.

Chapter 1089, Statutes of 1980, established a 15-member state advisory board on drug programs to take the place of the 7-member technical committee that was advisory to the Department of Mental Health. Five appointments to the new board are made by the Governor, five are made by the Senate Rules Committee, and five are made by the Speaker of the Assembly.

ANALYSIS AND RECOMMENDATIONS

The budget proposes two appropriations from the General Fund totaling $68,756,619 for support of department activities in 1981–82. This is an increase of $344,262, or 0.5 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.

Total 1981–82 expenditures for the Department of Alcohol and Drug Programs from all sources, including federal funds and reimbursements, are projected at $105,865,619, an increase of $1,625,966, or 1.6 percent, over estimated current year expenditures.

The department's *current year baseline adjustments* reflect the following changes: (1) increased personnel costs ($232,908 General Fund, $134,508 federal); (2) price increases ($121,755 General Fund, $78,886 federal); (3) planning esti-

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

mate adjustments (−$7,436 General Fund, $478,948 federal); (4) utilization of a one-time reimbursement for Short-Doyle/Medi-Cal (−$2,000,000); and (5) utilization of current year funds for a state manpower program (−$30,000 federal funds).

The budget proposes the following *program changes for 1981–82:* (1) additional monitoring positions for the drinking driver program (−$48,556 federal funds, $156,063 in reimbursements); (2) additional quality assurance positions in the alcohol programs division (−$48,556 General Fund, −$104,057 federal, $396,214 in reimbursements); (3) increased audit appeals costs ($215,797 General Fund, $74,057 federal); (4) expansion of EDP capacity ($49,616 General Fund, $30,000 federal); (5) an additional budget position ($10,199 General Fund, $18,940 in reimbursements); (6) termination of a contract with the California labor management plan for alcoholics (−$295,000 General Fund); (7) continuation of direct administration of Short-Doyle/Medi-Cal funds in the drug program ($64,979 General Fund, $2,066,701 in reimbursements); and (8) continuation of the state manpower program ($30,000 federal funds).

Table 1 details the department's proposed budget changes by each funding source. Increased reimbursements are the primary source of support for the department's eight program change proposals.

Table 1
Department of Alcohol and Drug Programs
Proposed 1981–82 Budget Changes
All Funds

	General	*Federal*	*Reimbursements*	*Total*
1980–81 Current Year Revised	$68,412,357	$33,786,751	$2,040,545	$104,239,653
1. Baseline Adjustments				
A. Increase in existing personnel costs	232,908	134,508		367,416
1. Salary adjustments	(180,111)	(105,145)		(285,256)
2. Salary savings adjustment	(−9,005)	(−5,255)		(−14,260)
3. Staff benefits	(61,802)	(34,618)		(96,420)
B. Price increase	121,755	78,886		200,641
C. Planning estimate adjustments	−7,436	478,948		471,512
1. Hughes formula grant		(245,378)		(245,378)
2. Supplemental Security Income		(233,570)		(233,570)
3. Other	(−7,436)			(−7,436)
D. Deduct administrative program additions				
1. Short-Doyle/Medi-Cal local assistance			−2,000,000	−2,000,000
2. State manpower program		−30,000		−30,000
Total, Baseline Adjustments	$347,227	$662,342	−$2,000,000	−$990,431
2. Program Change Proposals				
A. Drinking driver program		−48,556	156,063	107,507
B. Quality assurance	−48,556	−104,057	396,214	243,601
C. Audit appeals	215,797	74,057		289,854
D. EDP expansion	49,616	30,000		79,616
E. Budget services	10,199		18,940	29,139
F. California labor-management plan	−295,000			−295,000
G. Short-Doyle/Medi-Cal	64,979		2,066,701	2,131,680
H. State manpower program		30,000		30,000
Total, Program Change Proposals	−$2,965	−$18,556	$2,637,918	$2,616,397
1981–82 Proposed Expenditures	$68,756,619	$34,430,537	$2,678,463	$105,865,619
Total increase over estimated current year expenditures				
Amount	$344,262	$643,786	$637,918	$1,625,966
Percent	0.5%	1.9%	31.3%	1.6%

The department's proposal to fund program changes primarily from reimbursements has enabled it to redirect General Fund and federal fund support, as detailed in Table 2. The department proposes, for example, that $104,057 in federal funds currently dedicated to quality assurance activities be redirected to offset the costs of the audit appeals augmentation ($74,057) and the EDP expansion ($30,000). Our analysis indicates that this funding mechanism tends to understate the additional cost of proposed 1981–82 program changes. To the extent that increased reimbursements do not become available, the department would lack sufficient funding to provide the level of service proposed for the budget year.

Table 2
Department of Alcohol and Drug Programs
Current and Proposed Expenditures
of Redirected Funds
1981–82

Proposed Redirection From Current Expenditures			*Proposed Expenditures of Redirected Funds*		
	Amount			*Amount*	
Current Expenditures	*General Fund*	*Federal funds*	*Proposed Expenditures*	*General Fund*	*Federal funds*
Labor management plan	$295,000		Audit appeals	$215,797	$74,057
Quality assurance	48,556	$104,057	EDP expansion	49,616	30,000
Drinking driver program		48,556	Short-Doyle Medi-Cal compliance	64,979	
			Budget staff	10,199	
Subtotals	$343,556	$152,613		$340,591	$104,057
Totals	$496,169			$444,648	
	Difference			−$51,521	

Staffing Level

The 1980 Budget Act authorized 228 positions in the Department of Alcohol and Drug Programs. During the current year, 2.5 positions were administratively established in the department to (a) monitor the drinking driver program (1.5) and (b) comply with federal requirements under the Short-Doyle/Medi-Cal program (1).

The department proposes an additional 14.5 positions in 1981–82, including the 2.5 positions administratively established in 1980–81. Of the total request, 12.5 positions are for monitoring and quality assurance activities. The remaining two positions are for state administration. Thus, a total of 242.5 authorized positions is proposed for the budget year.

IMPACT OF RECENT LEGISLATION

Alcohol Programs

Chapter 661, Statutes of 1980 (AB 2086–Statham), increased by $70 the minimum fines for each of the following offenses: driving under the influence of alcohol, reckless driving, and reckless driving causing bodily injury. Chapter 661 further provides that $50 out of each $70 increase per fine shall be placed in a special county account for exclusive allocation by the county alcohol program administrator, with the approval of the board of supervisors. This new source of funding for alcohol programs is commonly referred to as the "Statham revenue," or the "AB 2086 funds."

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Drug Programs

Chapter 1089, Statutes of 1980 (SB 1841), authorizes the Department of Alcohol and Drug Programs to exercise more direct administrative authority over the state's drug abuse program. The Department of Mental Health (DMH) previously was considered the administering agency, because drug programs received (and still receive) state General Fund support under the Short-Doyle system. Under the new statute, DADP will receive its own Short-Doyle appropriation from the General Fund. The department will transfer these funds to DMH, which will continue making payments to providers until such time as both state departments determine that it is more cost effective and practicable for DADP to assume these functions.

Other technical changes in the new statute transfer from DMH to DADP the authority to: (1) promulgate regulations, (2) establish drug program planning guidelines, and (3) review and approve the drug program portion of the county Short-Doyle plan and budget.

Legislative Follow-Up

Alcohol Advisory Board "Sunset." Chapter 679, Statutes of 1979, extended authorization for the State Advisory Board on Alcohol-Related Problems until January 1, 1983. The act also required the board to submit by January 1, 1981 a statement of purpose, organization, and performance to the Legislature. The board has submitted this statement.

Chapter 679 requires the Legislative Analyst to evaluate, on the basis of both the board's submittal and independent research, the board's purpose, organization, and performance and report its findings to the Legislature.

Drug Programs—Funding Profile. The Department of Alcohol and Drug Programs, pursuant to the Supplemental Report of the 1980 Budget Act, surveyed the 315 service providers in the statewide drug treatment program. The department's survey report was submitted to the Legislature on November 17, 1980.

STATE ADMINISTRATION

The Department of Alcohol and Drug Programs estimates that total funding for alcohol and drug programs in California, from all sources, was approximately $155 million in 1979–80. The department exercised administrative authority over approximately $76 million, or 49 percent, of that amount. The remaining 51 percent came from private as well as other public sources, including direct federal grants, county general funds, and client-related benefits (such as food stamps).

In 1981–82, the department is proposing to spend $105,865,619 (all funds). Chart 1 shows that local assistance comprises 89.9 percent of DADP's budget.

State administration costs (excluding special projects) are proposed at $9,649,909, or 9.1 percent, of total 1981–82 expenditures. This is an increase of $1,360,039, or 16.4 percent, over estimated current year expenditures. The department's projection assumes that the department will receive $472,277 in additional reimbursements from counties. An increase of this magnitude would expand the counties' share of state administrative costs by 960 percent, as shown in Table 3.

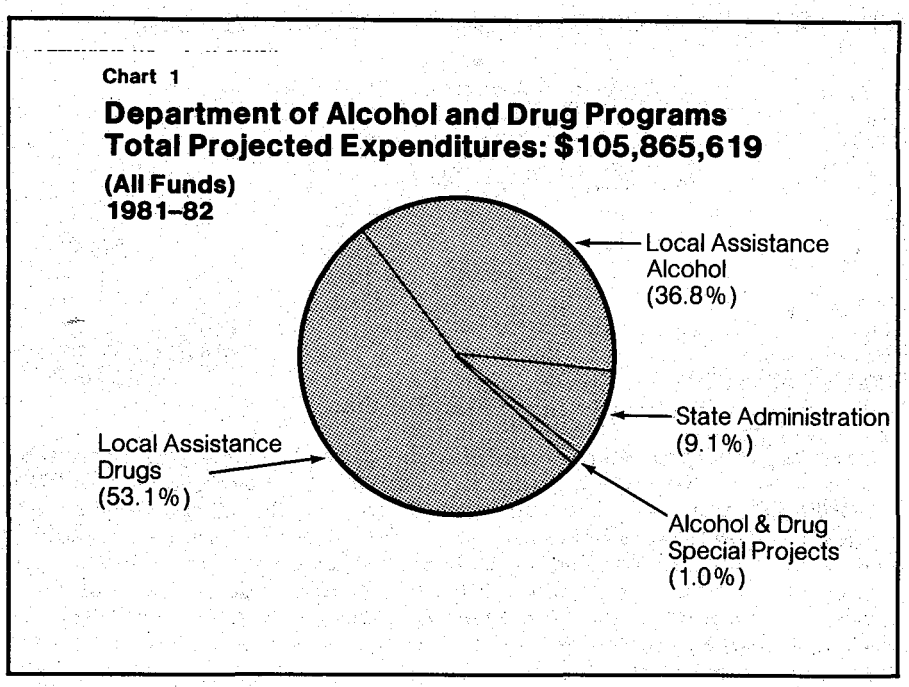


Table 3
Department of Alcohol and Drug Programs
County Funds for State Administration
1980–81 and 1981–82

	Estimated 1980–81	*Proposed 1981–82*	*Increase*	
			Amount	*Percent*
Cost of state administration	$8,281,870	$9,641,909	$1,360,039	16.4%
County reimbursements:				
Existing (drinking driver program, approval fees)	40,545	196,608		
New (quality assurance)	—	316,214		
Total, county reimbursements	$40,545	$512,822	$472,277	1,165%
County reimbursements as percent of cost of state administration	0.5%	5.3%		960%

Salary Savings Underestimated

We recommend that the amount budgeted for salary savings be increased to 8.9 percent of salaries and wages to prevent overbudgeting for personnel costs, for a General Fund savings of $417,093.

When budgeting for salaries and wages, departments normally recognize that salary levels will fluctuate and that not all positions will be filled for a full 12 months. Experience shows that savings will accrue due to the following factors: vacant positions, leaves of absence, 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 salaries and wages amount.

Our analysis of the Department of Alcohol and Drug Programs' *actual* salary savings experience in prior years indicates that the budget has generally underestimated salary savings. For example, Table 4 shows that the 1978–79 budget proposed salary savings in the amount of $142,647, but that actual savings were $597,940, a difference of $455,293.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Table 4
Department of Alcohol and Drug Programs
Actual Salary Savings in Prior Years
1977–78 to 1979–80

	Estimated Salary Savings		*Actual Salary Savings*	
	Amount	*Percent of Total Salaries and Wages*	*Amount*	*Percent of Total Salaries and Wages*
1977–78	$45,092	3.5%	$22,628	1.7%
1978–79	142,647	3.9	597,940	16.7
1979–80	251,801	6.4	320,124	8.2
Average Salary Savings Percents	—	4.6%	—	8.9%

Source: Governor's Budget for fiscal years 1977–78 through 1981–82

The salary savings projected for 1981–82 are $262,033, or 4.8 percent, of total salaries and wages. Given an average salary savings rate of 8.9 percent from 1977–78 to 1979–80, our analysis indicates that the budgeted amount is probably too low. Therefore, we recommend that salary savings for the department be budgeted at 8.9 percent for 1981–82. Applying an 8.9 percent salary savings rate will also result in reduced expenditures for staff benefits and operating expenses, since the level of these expenditures depends on the number of positions actually filled. As shown in Table 5, a salary savings rate of 8.9 percent results in a total General Fund savings of $417,093.

Table 5
Department of Alcohol and Drug Programs
Projected Salary Savings
1981–82

	Governor's Budget		*Analyst's Proposal*	
Total salaries and wages	$5,440,199		$5,440,199	
Salary savings	−262,033	(4.8%)	−484,178	(8.9%)
Net totals salaries and wages	$5,178,166		$4,956,021	
Staff benefits	+1,585,783	(30.6%)	+1,517,534	(30.6%)
Total personal services	$6,763,949		$6,473,555	
Operating expenses and equipment	+2,877,960	(42.5%)	+2,751,261	(42.5%)
Total expenditures (excluding special items of expense)	$9,641,909		$9,224,816	
Difference		−$417,093		

Alcohol and Drug Program Audits

We recommend adoption of supplemental report language requiring the Department of Alcohol and Drug Programs to report to the Legislature by December 1, 1981 on its actual experience with respect to auditing alcohol and drug programs, including total costs to the department of performing the audits and total recoveries of cost disallowances.

Background. The Department of Alcohol and Drug Programs (DADP) has 30 authorized positions to perform audits of alcohol and drug programs. Currently, 24 of the positions (21 professional, including 7 trainees, and 3 clerical) are filled. The scope of audits performed by the department includes financial and compliance accountability, economy, efficiency, and program accomplishments. DADP estimates 1980–81 audit costs, excluding appeals, of $1,020,651. Of this amount, the General Fund share is $735,622, or 72.1 percent, of total costs. The department advises that cost disallowances since the audit program began in 1978–79 have totaled $2,252,372 (through January 22, 1981).

Our analysis indicates that the General Fund share of DADP's audit program may be unnecessarily high. While total disallowances to date exceed the annual General Fund cost of conducting the audits, not all disallowances are *collected.* Unfortunately, we do not have precise data on the number of audits and the dollar value of disallowances. Nevertheless, we can estimate recoveries from available data.

Approximately 61 percent of the *number* of cost disallowances is appealed. According to the reports from the Department of Health Services' audit appeal unit, DADP is recovering approximately 45.6 percent of *appealed* cost disallowances. Using this information, we estimate that the department may recover approximately $626,520 of the total costs it has disallowed in audits since 1978–79. This amount is less than the annual cost of the audit program to the General Fund. Moreover, some portion of this amount would be in recoverable *federal* funds.

General Fund Return. If the return of audits does not at least replace the cost to the General Fund of performing them, the primary benefit from continuing the audit is that federal requirements are satisfied. In that case, the federal government should cover a greater portion of the program's cost.

In our review of the department's auditing function, we have identified the following issues.

1. The state may be spending more General Fund dollars to perform audits of alcohol and drug programs than it recovers in cost disallowances.
2. Federal audit requirements are less stringent than DADP's. Consequently, the department's existing audit scope may be unnecessarily broad—and unnecessarily costly.
3. Sharing cost disallowances proportionately, according to the funding mix in individual programs, may provide an incentive to the counties or the providers to underreport their actual costs in order to avoid disallowances of expenditures which are legitimate according to county rules, but which are not consistent with state or federal spending rules or policies.

In order to give the Legislature a better basis for evaluating DADP's audit function, we recommend adoption of the following supplemental report language which would require the department to submit information on audit costs and effectiveness:

"The Department of Alcohol and Drug Programs shall report to the Legislature no later than December 1, 1981 on its actual audit experience in 1978–79, 1979–80, and 1980–81 with respect to the alcohol program and the drug program, including for each: (1) the total number of audits performed, (2) total audit costs to the department, identifying General Fund and federal fund shares; (3) the total costs claimed and audited; (4) the total number and dollar value of cost disallowances; (5) the total actual costs of the audit appeals process, identifying General Fund and federal fund shares; and (6) the total number and dollar value of cost disallowances recovered, identifying General Fund and federal fund shares."

Audit Appeals

We recommend a reduction in DADP's proposed augmentation of support for audit appeals, due to overbudgeting, for a General Fund savings of $90,364.

The department proposes to augment its existing contract for audit appeal services with the Department of Health Services (DHS). The total cost of the department's proposal is $289,854 ($215,797 in redirected General Fund support, $74,057 in federal funds).

DADP's request is based on actual audit appeals experience during 1978–79 and 1979–80 and projected appeals during 1980–81. Our analysis indicates that the

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

department's method of estimating current year requirements results in an overstatement of probable needs in 1981–82.

We have estimated the costs of the department's proposal based on the actual audit appeals data DADP provided for 1978–79 and 1979–80. Our cost estimate includes the same inflation adjustments used by the department. Based on an average of 87 audits per year, or 9.7 audits per auditor, our analysis of audit and audit appeals activity associated with 24 full-time auditors indicates that the department's proposal is overbudgeted by $90,364, as shown in Table 6.

Table 6
Department of Alcohol and Drug Programs
Analysis of Audit Appeals Augmentation Request
1981–82

	Department's Projection	*Analyst's Projection*
Audits to be performed by existing staff	272	233
Exceptions issued	170	142
First level appeals filed	151	126
Second level appeals filed	23	13
Cost of first level appeals	$197,977	$147,560
Cost of second level appeals	91,877	51,930
Total cost of audit appeals	$289,854	$199,490
Difference		−$90,364

On the basis of actual experience, adjusted for inflation, we recommend that the proposed augmentation be reduced, for a General Fund savings of $90,364.

DIVISION OF ALCOHOL PROGRAMS

The Division of Alcohol Programs (DAP) is responsible for establishing and maintaining the overall state-administered alcohol program, pursuant to Chapter 679, Statutes of 1979 (AB 272). Currently, 47.5 positions are assigned to the alcohol division: 6 in the division chief's office, 13 in the county liaison and fiscal support section, 9.5 in quality assurance, 10 in program development and training, and 9 in planning, evaluation, and research.

Under Chapter 679, county alcohol services fall into one of two broad categories: (1) *direct services,* which include residential and nonresidential treatment, and community-based "sober environments" (for education, recreation, and social occasions); and (2) *indirect services,* which include prevention, information and referral, "drop-in centers" (for social services referrals, meals, showers, and clean clothes), monitoring of individual Supplemental Security Income (SSI) recipients who are in treatment as medically determined alcoholics, and employee assistance programs (for employees whose impaired job performance is attributed to alcohol abuse).

Statewide, there are 621 alcohol service facilities: 438 for direct services (179 residential, 259 nonresidential) and 183 for indirect services. The department estimates that 114,219 admissions were made to these facilities in 1978–79. (The department is not able to determine the unduplicated number of clients the admissions estimate represents.)

Table 7 summarizes the existing administrative relationships in the delivery of alcohol services in California, and the proposed funding levels for local assistance to counties in 1981–82. The Alcohol Division does not contract with individual providers except for special projects.

Table 7
Department of Alcohol and Drug Programs
Local Assistance for Alcohol Programs
Administration and Funding
1981–82

	General Fund	*Federal Funds (Hughes)*	*SSI*
Local assistance funding 1981–82	$33,839,164	$4,383,894	$724,160
Percentages of total ($38,947,218)	86.9%	11.3%	1.8%
Number of participating counties	58	58	36
Funding period	State fiscal year	State fiscal year	State fiscal year
Allocation method	Base allocation of $45,000 plus modified formula		Applications submitted by counties
Basis for final allocations	County plans and budgets		Projected number of individual clients
Payment	Cost reimbursement	Cost reimbursement	Specified rate per client
Cost control mechanism	State and counties negotiate reasonable costs annually		Maximum rate per client
Program expenditure restrictions	Local discretion per approved county plans		Individual client monitoring only
Program and fiscal monitoring	State; counties monitor subcontractors		State reviews counties' monitoring of individual clients; state also directly monitors 40–45 individual clients

No Cost-Of-Living Adjustment Budgeted

The budget does not include a cost-of-living increase for local assistance to county alcohol programs in the budget year. The adjustment in 1980–81 was 9 percent.

In discussions with several county administrators, we have been advised that the 1980–81 cost-of-living adjustment (COLA) is being used primarily to cover staff salary increases for both county employees and private providers that contract with the counties. In some cases, however, the COLA has been used for one-time expenditures, including capital improvements and increased levels of service in various programs. In one county we contacted, the COLA replaced county general funds, dollar-for-dollar.

Elsewhere in this analysis (see A-page section of this Analysis), we discuss the general issue of providing inflation adjustments. Each 1 percent increase in funding for local assistance to county alcohol programs would cost $338,392.

Federal Funds Uncertainty

We recommend the Department of Alcohol and Drug Programs report to the fiscal subcommittees during budget hearings on (1) the basis for projecting a carryover of federal funds from 1980–81 into 1981–82, (2) the impact of federal formula grant reductions on state and local alcohol program operations during the current year, and (3) the department's plan for "allocating" further reductions in 1981–82 should they occur.

California receives federal funds for alcohol programs in the form of a formula grant from the National Institute on Alcoholism and Alcohol Abuse (NIAAA). In the current year, California received formula grant funds of $4,113,304, a decrease of $398,194, or 8.8 percent, from the NIAAA grant award in 1979–80, and a decrease of $457,255 from the amount the department was anticipating, based on NIAAA's

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

preliminary indications. The department absorbed a portion of the current year reduction in state operations. The balance was deducted from the allocations to the 42 largest counties, resulting in an 8.1 percent reduction in their federal grant allocations.

NIAAA has not given the department a planning estimate for 1981–82 at this time. Nevertheless, the budget assumes that the availability of federal formula grant funds will *increase* to $4,383,894 in 1981–82, an increase of 6.6 percent over estimated current year expenditures. DADP's estimate of NIAAA funds for 1981–82 is based on the department's expectation that (a) the grant will be the same as the amount received in the current year, and (b) $270,592 will be carried over from the current year.

We are unable to advise the Legislature with respect to (a) the basis on which the alcohol division is projecting a carryover of federal funds, and (b) the extent to which it was actually necessary to reduce federal allocations to the 42 largest counties by 8.1 percent. Therefore, we recommend that the department report to the fiscal subcommittees during budget hearings on (1) the basis for projecting a 6.6 percent carryover of federal funds for alcohol programs from 1980–81 into 1981–82, (2) the impact on local programs and services of reductions in federal funds made during the current year, and (3) the department's plan for "allocating" further reductions in 1981–82, should they occur.

Quality Assurance Budget Proposal

We recommend deletion of 5.5 new positions and $396,214 in reimbursements proposed to increase the level of state quality assurance services to the counties, because the department has not developed program standards for alcohol services.

The department is requesting 5.5 new positions to expand the existing quality assurance function so that it can review the quality of all direct alcohol services. The total cost of the expanded function is $396,214. DADP proposes to collect this amount in reimbursements from the counties. With this new revenue, the department further proposes to replace $48,556 in existing General Fund support for quality assurance, and $104,057 in existing federal funds. The existing General Fund and federal fund support would be redirected to other program activities within state administration.

Currently, the department's quality assurance function consists of making certification *available* on the basis of advisory guidelines developed in 1975. Two types of alcohol services are being certified in the current year: alcohol recovery homes (community-based residential facilities) and detoxification facilities that serve alcoholics on referrals from law enforcement agencies as an alternative to jail.

DADP was mandated by Chapter 679, Statutes of 1979, to develop program standards for direct and indirect alcohol services—in consultation with the county alcohol program administrators. Chapter 679 provides that such standards shall be *advisory* unless imposed as requirements pursuant to regulation. Our analysis indicates that the department's proposal to expand certification of alcohol services on the basis of advisory guidelines is contrary to the Legislature's intent as expressed in Chapter 679.

The 1975 guidelines were developed by the then Office of Alcoholism for use by state staff in providing technical assistance to counties. As a secondary purpose, the guidelines were intended to aid in identifying recovery homes which merited public confidence and, more generally, in advising service providers how to prepare for dealing with intoxicated individuals. Our analysis of the 1975 guidelines indicates that they do not describe the "minimal level of service quality," which the Legislature required as program standards in Chapter 679.

Proposal is Premature. Because program standards currently do not exist, we conclude that DADP's proposal to establish 5.5 positions for expansion of quality

assurance services is, at best, premature. In the absence of such standards, state staff would have no objective basis for offering quality assurance services.

Consequently, we recommend deletion of the 5.5 new positions and $396,214 in reimbursements proposed for state quality assurance services to the counties.

Statham Funds

We recommend the adoption of Budget Bill language requiring that counties maintain their current year level of county general fund expenditures for alcohol programs as a condition for receiving state alcohol subventions.

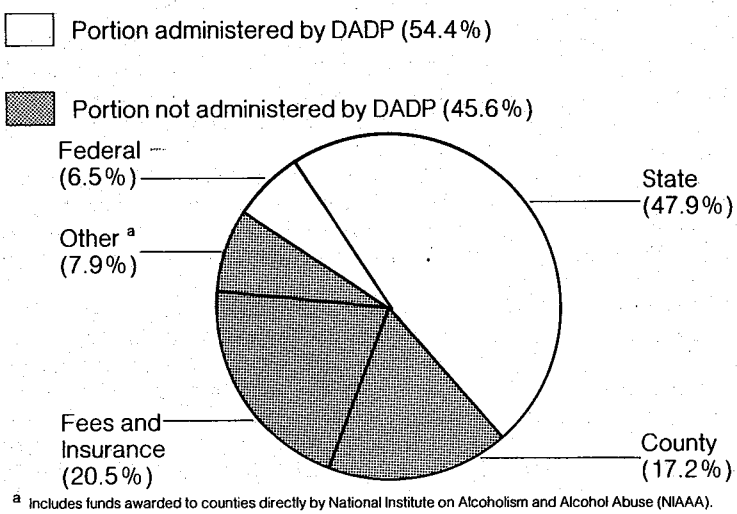
We further recommend adoption of supplemental report language requiring the Department of Alcohol and Drug Programs to report to the Legislature by December 1, 1981 on (1) actual revenues collected by counties pursuant to Chapter 661, Statutes of 1980, and (2) the categories in which those funds were expended, as approved by county boards of supervisors.

Chapter 661, Statutes of 1980 (AB 2086—Statham), established a county alcohol program revenue-generating mechanism at the local level, based on increased fines for specified driving offenses. This new source of funding for alcohol programs is frequently referred to as the "Statham revenue," or the "AB 2086 funds." DADP estimates that this act will generate $13,207,150 annually.

Approximately 54.4 percent of total current year funding for alcohol programs is under the direct administrative authority of the Department of Alcohol and Drug Programs. Of the total subvention (approximately $38 million), 88 percent comes from the General Fund and 12 percent comes from NIAAA through the federal formula grant. As Chart 2 shows, county alcohol programs also receive county general funds (17.2 percent), client fees and insurance (20.5 percent), and "other" revenue (7.9 percent). "Other" includes direct grants of federal funds from NIAAA, vocational rehabilitation funds, and a portion of drinking driver program fees used for county administration.

Chart 2

County Alcohol Services
Total Funding: $69,746,122
(All Sources) 1980–81



a Includes funds awarded to counties directly by National Institute on Alcoholism and Alcohol Abuse (NIAAA).
Source: Department of Alcohol and Drug Programs (DADP)

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Local Support for Alcohol Programs. Chart 2 shows that some counties have been committing significant local support to the alcohol programs. The department advises that approximately 10 counties are providing 17.2 percent of the total funding depicted in the chart. We have been advised, however, that, in at least one county, Statham funds will totally replace the present level of county general fund support. Our analysis indicates that such a reduction is contrary to legislative intent.

The Legislature has already provided fiscal relief to the counties by waiving the 10 percent local match requirement for alcohol and drug programs. Under current law, this waiver is effective through 1981–82. By 1982–83, given Statham revenue, most counties will be contributing at least 10 percent to the local cost of operating alcohol services. At a time when the counties are receiving substantial fiscal relief as a result of AB 8, the need for additional fiscal relief is unclear, and appears to be contrary to the intent of Chapter 661. Therefore, we recommend adoption of the following Budget Bill language in Item 420-101-001 (a), requiring counties to maintain their current-year funding levels as a condition for receiving state local assistance:

"Provided that funds shall be available only to counties that maintain their 1980–81 level of county general fund expenditures for alcohol programs."

Without actual experience, we are unable to project the impact Statham funds are likely to have on alcohol programs. Therefore, we further recommend adoption of the following supplemental report language:

"The Department of Alcohol and Drug Programs shall report to the Legislature by December 1, 1981, on (1) the actual revenue collected by counties pursuant to Chapter 661, Statutes of 1980, for the period January 1 through September 30, 1981; and (2) a summary of the categories in which such revenue was expended, as approved by county boards of supervisors and reported in county alcohol budgets due to be submitted to the department by October 1, 1981, including the number of counties that proposed each category of expenditure."

Drinking Driver Program

We recommend deletion of four new positions and $107,507 in reimbursements proposed to meet increased workload requirements in the drinking driver program, to avoid duplication of monitoring by the state and the counties.

Chapter 679, Statutes of 1979 (AB 272), continued the authorization for the state's "drinking driver program" (DDP). This program serves as an alternative to driver's license suspension when a person is convicted for driving while under the influence of alcohol. DDP enrollees consent to participate for at least one year and in a "manner satisfactory to the court."

Forty-one counties have opted to participate in DDP. The department advises that, in the current year, over 24,000 persons are attending drinking driver programs in 99 facilities. The program is supported entirely by client fees. Currently, the annual DDP budget statewide is approximately $12 million. The average annual fee per client is $500.

Budget Proposal. The budget proposes establishing four new positions (three professional and one clerical) to increase activities associated with reapproving drinking driver programs, providing technical assistance to providers, and evaluating DDP performance. The department has administratively established 1.5 of these positions during the current year.

Budget justification documents indicate that the total cost of the proposal, including existing DDP activities, would be $156,063 in 1981–82, payable from client

fees. The department is authorized by Chapter 679 to charge a fee for approval or reapproval of a program and to set the fee at a level sufficient to cover all administrative costs. In the current year, however, the department is using $48,556 in federal funds to provide partial support for these functions. The department plans to redirect the federal funds to another function in 1981–82 and use client fees exlusively for this function. The increased cost of the proposal is $107,507.

Duplication of State and County Monitoring. Chapter 679 delegated to the department the role of establishing procedures for implementation of the drinking driver program. The Legislature gave the counties the responsibility for monitoring service providers.

Our analysis indicates that the Department of Alcohol and Drug Programs can fulfill its mandated responsibilities with respect to drinking driver programs without duplicating the monitoring and technical assistance responsibilities of the counties. Moreover, to the extent increased state technical assistance and program approval activity is necessary, we conclude that existing staff serving as liaisons between DADP and counties are qualified by the nature of their present responsibilities and overall knowledge of county alcohol programs to assume this additional responsibility.

The statutes authorize the department to deny funding to counties when alcohol program plans do not provide for adequate local administration, including the local capacity to assure the programmatic and fiscal integrity of drinking driver programs in any participating county. On the basis of this authority, we conclude that the department can require the counties to provide adequate technical assistance and monitoring of individual drinking driver programs, and need not expand its own staff for this purpose. Therefore, we do not believe the additional positions are needed and recommend that they be deleted, along with $107,507 in reimbursements.

DIVISION OF DRUG PROGRAMS

The Division of Drug Programs has overall administrative responsibility for the state's local assistance to drug programs. Currently, 94 positions are assigned to the drug programs division: 6 in the division chief's office, 37 in the program services section, 22 in fiscal services, 13 in special assistance, and 16 in planning and program information.

With one exception, there are no statutory definitions of drug program services in either state or federal law. The exception is "methadone maintenance," a program to administer methadone to heroin addicts as a legal, but tightly controlled, substitute for heroin. General Fund support for drug programs is subvened to the counties through the Department of Mental Health's Short-Doyle system, which allows for extensive local discretion with respect to program development.

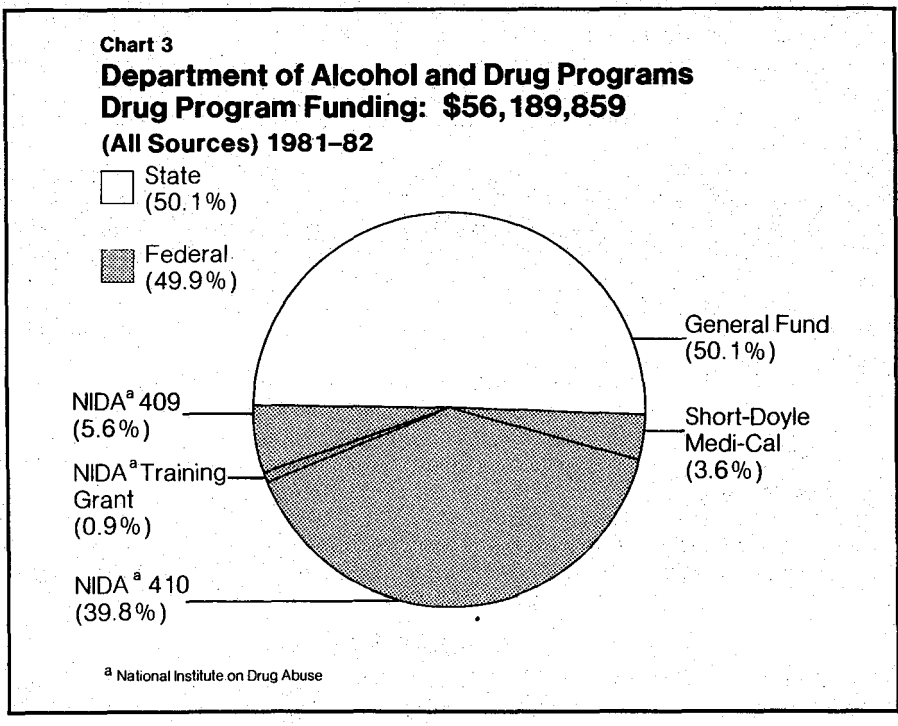
Effective January 1, 1981, DADP is authorized by Chapter 1089, Statutes of 1980 (SB 1841), to develop drug program planning guidelines.The counties will follow these guidelines in developing their drug program plans and funding requests.

The department estimates that total statewide drug program funding was approximately $88.4 million in 1979–80. Of this amount, the department's total local assistance subvention was $40.2 million, or 45.5 percent of the total amount. Other funding sources supporting drug programs include city and county general funds, client fees, donations, and private health insurance.

The Department of Alcohol and Drug Programs is proposing total local assistance expenditures of $56,189,859 for drug programs in 1981–82. As Chart 3 shows, the General Fund share of this total is approximately 50.1 percent. Federal support is awarded by the National Institute on Drug Abuse (NIDA), pursuant to Sections 410 and 409 of PL 92-255. NIDA 410 funds are restricted to drug abuse *treatment* services only. NIDA 409 funds are allocated to the state on a formula basis; expenditures from this source are discretionary. In California, NIDA 409 funds primarily

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

support prevention programs and special projects. DADP is anticipating a reduction of $500,000, or 13.6 percent, in its NIDA 409 grant for 1981–82.



No Cost-of-Living Adjustment Budgeted

The budget does not include a cost-of-living increase for local assistance to county drug programs in the budget year. The adjustment in 1980–81 was 9 percent.

In discussions with several county administrators, we have been advised that the 1980–81 cost-of-living adjustment (COLA) is being used primarily to cover cost increases and staff salary increases for both county employees and private providers that contract with the counties. In some cases, however, the COLA has been used to create new positions, or to make one-time expenditures, such as purchases of equipment and office supplies. One county advised us that a small portion of the COLA is filling a deficit resulting from post-Proposition 13 reductions.

In the 1979 Budget Act, the Legislature earmarked approximately $4 million from the local assistance appropriation to DADP for making improvements in residential treatment facilities and for serving specified special populations (adolescents, women, and polydrug abusers). In some counties, the 1980–81 COLA is being used to offset the loss of these one-time funds which were not continued in the current year.

Elsewhere in this analysis (see A-page section), we discuss the general issue of providing inflation adjustments. Each 1 percent increase in funding for local assistance to county drug programs would cost $281,678.

Consolidated Administration of Drug Treatment Programs

We recommend adoption of supplemental report language requiring the Systems Review Unit in the Health and Welfare Agency Secretary's Office to study the feasibility of consolidating the "SWSG" and the "ATP" systems for administering funds for drug treatment services, and report its findings to the Legislature by December 15, 1981.

Due to historical developments in the drug treatment programs in California, there currently exist two administrative systems for funding drug treatment services: the statewide services grant (SWSG) and all treatment programs (ATP). Our analysis indicates that a single system would be more efficient to administer, and would facilitate more effective cost control at the service provider level than is possible with dual administration.

"SWSG" and "ATP." The SWSG has a single funding source—Section 410 of PL 92-255. SWSG funds are awarded to California by the National Institute on Drug Abuse (NIDA), and their use is restricted to treatment services which are provided in four separate categories, as defined by NIDA.

Table 8
Department of Alcohol and Drug Programs
Local Assistance for Drug Programs
Administration and Funding
1981–82

	General Fund	*SWSG (NIDA 410)*	*Short-Doyle Medi-Cal*[a]	*NIDA 409*	*Training Grant*
Local assistance funding	$28,167,823	$22,352,443	$2,000,000	$3,169,593	$500,000
Percentages of total ($56,189,859)	50.1%	39.8%	3.6%	5.6%	0.9%
Contractors or grantees	58 counties	101 providers (including 19 counties)	22 counties	56 providers (including 50 counties)	N/A
Funding period	State fiscal year	Calendar year	State fiscal year	State fiscal year	N/A
Allocation method	Base allocation of $60,000 plus modified formula	Annual contract negotiations	Maximums, based on approved county plans	Formula allocations to counties, contract negotiations for special projects	Request for proposals
Basis for final allocation	County plans and budgets	Contract terms	Projected number of eligible clients	County plans and budgets, or contract terms	Contract terms
Payment	Cost reimbursement	Cost reimbursement	Cost reimbursement	Cost reimbursement	N/A
Cost control mechanism	State and county negotiate reasonable costs annually	Slot costs are limited to maximum reimbursement rates	SD/MC expenditures limited to local availability of General Fund to use as match	State and providers negotiate reasonable costs	State and providers negotiate reasonable costs
Program expenditure restrictions	Local discretion, per approved county plan	Treatment only	Outpatient treatment only	County or provider option to provide state-emphasized service	Request for proposals
Program and fiscal monitoring of service providers	State; counties monitor subcontractors	State	State; counties monitor subcontractors	State; counties monitor subcontractors	State

[a] Certain drug programs also receive regular Medi-Cal payments through the regional fiscal intermediaries. Currently, drug programs report receiving approximately $600,000 annually in regular Medi-Cal payments.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

The ATP system encompasses the SWSG. Thus, one of the ATP funding sources is Section 410 of PL 92-255. ATP has two additional funding sources: the state General Fund and Short-Doyle/Medi-Cal (SD/MC). The ATP system is governed by three sets of funds management rules which vary substantially from each other in terms of restrictions placed on spending.

Table 8 summarizes the existing dual system for administering drug program local assistance from state and federal sources. For informational purposes, we have included a description of two additional funding systems the department administers: (1) the NIDA 409 program, which is most nearly comparable to the General Fund portion of ATP in flexibility but which is dedicated to prevention rather than treatment; and (2) a federal training grant from which the department will award subgrants to individual programs. Our analysis indicates that this additional administrative diversity enhances the desirability of simplifying the administration of treatment-only funds.

In our review of the two administrative systems for funding drug treatment, we have identified two cost-related problems.

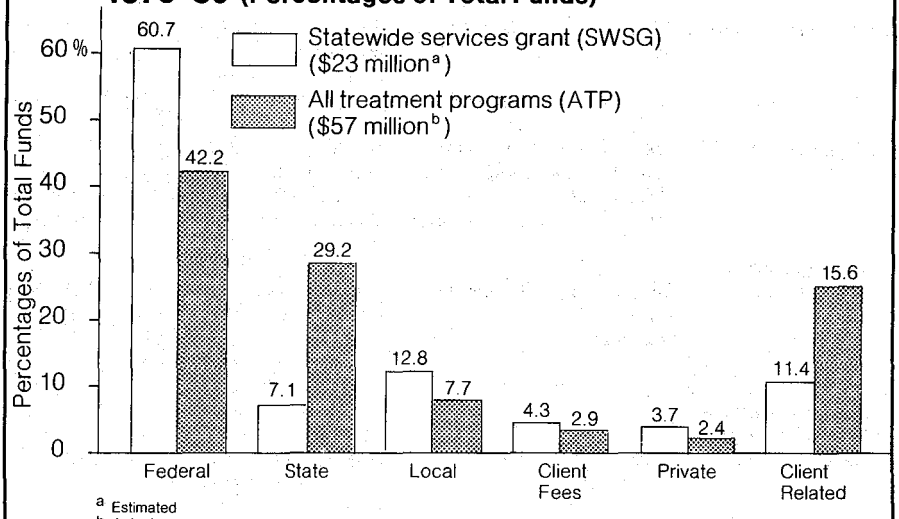
Cost sharing. The state and federal cost-sharing relationships are not comparable in the ATP and the SWSG. Chart 4 shows that the federal share of drug treatment costs in the SWSG in 1979–80 was 60.7 percent. In the ATP, the federal share was 42.2 percent.

Chart 4 also shows that the General Fund share of drug treatment costs in the SWSG in 1979–80 was 7.1 percent. In the ATP, the General Fund share was 29.2 percent.

In addition, the programs in the SWSG received 12.8 percent of their revenue in 1979–80 from *local* public funds, while the ATP programs received 7.7 percent from local sources.

Chart 4

Department of Alcohol and Drug Programs
Funding for Drug Programs: Treatment Only
Cost-Sharing Relationships
1979–80 (Percentages of Total Funds)



[a] Estimated
[b] Actual
Source: Department of Alcohol and Drug Programs

Our analysis suggests that General Fund support could be reduced, or that federal fund support could be increased, or both, if drug treatment programs were administered in a single system.

We are unable to advise the Legislature why these cost-sharing relationships vary substantially between the SWSG and the ATP. Also, we are not able to verify the extent to which additional federal funds could be drawn into California, should the existing dual administrative structure be consolidated into a single system.

Cost Control. Reimbursement in the SWSG is based on "slot utilization." A comparable term for "slot" is "client-year." NIDA has defined four treatment modalities (outpatient services, residential, day care, and residential detoxification) and estimated the cost of treatment per slot—or the estimated cost per client-year—in each modality.

NIDA controls its own costs in supporting drug treatment services by reimbursing programs *up to* 60 percent of NIDA's estimated slot cost for each slot that is filled at least 90 percent of each year. Except for allowing cost-of-living increases, NIDA has not revised the estimated slot costs since they were first developed in 1973.

In the General Fund portion of the ATP, on the other hand, service units are not so well-defined as in the SWSG. Definitions of drug program services do not appear in state statutes or regulations—with the single exception of methadone maintenance. Our analysis indicates that the lack of such definitions can cause cost control problems to the extent that the approved basis for funding is not clear to the administering agency, the service provider, or both. Reliance on annual negotiations to ascertain the "reasonable costs" in each program makes cost control somewhat uncertain, at best.

The existing cost control mechanisms in the SWSG and the ATP result in substantially different estimated average costs. The estimated average annual cost per client in the SWSG programs in 1979–80 was $1,717. As shown in Table 9, the estimated average cost in the ATP was $3,145, or 83.2 percent higher than in the SWSG.

Table 9
Department of Alcohol and Drug Programs
Estimated Average Annual Cost Per Client for Drug Treatment
SWSG and ATP
1979–80

	SWSG	*ATP*
Total costs	$23,045,000	$57,134,000
Total clients	13,425	18,168
Average annual cost per client	$1,717	$3,145

Source: Department of Alcohol and Drug Programs

Recommendation. In order for the Legislature to obtain information regarding (a) the costs of administering a dual system for funding drug treatment programs and (b) the potential savings and other advantages to be gained from consolidating the two systems into one, we recommend adoption of the following supplemental report language: "The Systems Review Unit in the Health and Welfare Agency Secretary's Office shall study the feasibility of consolidating the existing dual system for administering drug treatment funding in California, and submit its analysis and recommendations to the Legislature no later than December 15, 1981."

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Short-Doyle/Medi-Cal

We recommend that three new positions requested to assume Short-Doyle/Medi-Cal responsibilities in the Department of Alcohol and Drug Programs be approved for a limited term (through June 30, 1982), because existing staff can assume this increased workload once the procedures have been standardized.

In the current year, the administration transferred the administrative authority for $2 million in Short-Doyle/Medi-Cal funds for the treatment of drug abusers from the Department of Mental Health (DMH) to the Department of Alcohol and Drug Programs. As a result, DADP, rather than DMH, now has an interagency agreement with the Department of Health Services (DHS) to authorize the payment of these funds. The budget proposes to continue this arrangement in 1981–82. Our analysis indicates that this proposal is consistent with the Legislature's intent in Chapter 1089, Statutes of 1980, that the Department of Alcohol and Drug Programs gradually assume full authority for state-administered drug programs.

The 1981–82 interagency agreement between DHS and DADP would contain $150,620 to meet DADP's administrative costs. The department is requesting three positions, one of which was administratively established in the current year, to carry out activities associated with bringing the drug treatment portion of the Short-Doyle/Medi-Cal system into compliance with federal regulations.

Compliance Issues. The federal government has been examining the use of federal funds for local mental health and drug abuse programs for several years. Federal officials, as well as state staff in DHS, have raised a number of questions about the extent to which the use of Medi-Cal funds in these programs complies with federal law and regulations. We have discussed this matter in detail in our analysis of Item 426-001-001. Due to the compliance uncertainty, the federal government currently is withholding the Short Doyle/Medi-Cal advances, and DHS is refusing to pay a portion of the mental health and drug abuse claims submitted to it by DMH.

Additional Concerns. DADP indicates that Short-Doyle/Medi-Cal utilization review, claims processing, and auditing are "specialized" to the extent that current staff are not qualified to perform the necessary monitoring and auditing.

Our analysis indicates that DADP currently has 72 positions (including support staff) assigned to various aspects of fiscal and program monitoring of the drug programs, including the programs participating in Short-Doyle/Medi-Cal. The incumbents in these positions are qualified by the nature of their present responsibilities and overall knowledge of drug programs to absorb the ongoing Short-Doyle/Medi-Cal workload once the initial compliance effort is completed and the necessary monitoring is routinized. Therefore we recommend that the three new positions requested by the department be approved for a limited term (through June 30, 1982.).

Health and Welfare Agency

GOVERNOR'S ADVISORY COMMITTEE ON CHILD DEVELOPMENT PROGRAMS

Item 422 from the General Fund — Budget p. HW 28

Requested 1981–82	$140,746
Estimated 1980–81	115,189
Actual 1979–80	90,596
Requested increase $25,557 (+22.2 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATION

GENERAL PROGRAM STATEMENT

The Governor's Advisory Committee on Child Development Programs (GACCDP) is responsible for assisting the Department of Education in developing a state plan for child development programs pursuant to Chapter 798, Statutes of 1980 (SB 863). In addition, the committee is responsible for advising the Governor and the Superintendent of Public Instruction on issues related to child care and development, evaluating the effectiveness of such programs, and reporting annually to the Legislature on these matters. The committee consists of 25 members and is staffed with an executive secretary and clerical support.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Our analysis indicates that the augmentations are justified, based on the increased role of the committee in the oversight of child care and development programs.

Table 1
Governor's Advisory Committee on Child Development Programs
General Fund Support
Summary of Changes from 1980–81 Budget

	Cost	*Total*
Adjusted 1980–81 Budget		$115,189
A. 1981–82 Base-line Adjustments		
1. Price	$3,641	
2. Workload	−22,991	
Subtotal		−$19,350
B. General Fund Program Change Proposals		
1. Associate Governmental Program Analyst	$35,633	
2. Travel	9,274	
Subtotal		$44,907
Total, State Operations 1981–82		$140,746

GOVERNOR'S ADVISORY COMMITTEE ON CHILD DEVELOPMENT PROGRAMS—Continued

The Governor's Budget proposes an appropriation of $140,746 from the General Fund for support of the advisory committee in 1981–82. This is an increase of $25,557, or 22.2 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.

An augmentation in 1981–82 is proposed for (1) a new full-time analyst to develop reports and respond to information requests and (2) in-state travel.

Table 1 displays the changes in the committee's budget from 1980–81 to 1981–82.

Independent Review Needed

We recommend that the Legislature direct the Governor's Advisory Committee on Child Development Programs to evaluate the structure and organization of the Office of Child Development (OCD) to determine (1) the most appropriate organizational placement of OCD, (2) the feasibility of service regionalization, and (3) the necessary staffing qualification requirements.

1. ***Placement.*** The Office of Child Development (OCD) is presently located within the Department of Education. OCD contracts with a variety of agencies, including school districts, and private agencies. Given the varied types of agencies served by OCD, the Department of Education may not be the most appropriate organizational placement for this office. Alternative organizational placements should be reviewed.

2. ***Regionalization.*** The Office of Child Development is located in Sacramento and employs 35 consultants. These consultants are assigned to regions throughout the state. The majority of the consultant workload consists of assisting and advising the agencies within a particular region. The department estimates that under normal circumstances, three-fifths of a consultant's time is spent in the region. The remaining two-fifths of a consultant's time is spent in Sacramento answering correspondence and telephone calls, and attending departmental meetings. An analysis is needed to determine the potential savings and costs from decentralizing the consultants and locating them in their particular region.

3. ***Staff Qualifications.*** The OCD consultant positions require an administrative or supervisory credential. Assistant consultant positions require a teaching credential or permit. One of the concerns expressed by local agencies has been the need for budgetary or fiscal program assistance. Because the qualifications of OCD consultant staff do not allow them to respond to local agencies' needs in these instances, a review of the appropriate qualifications for the consultant position is warranted.

Review of these matters can be accomplished by the new GACCDP staff member without any further augmentation of funds. Accordingly, we recommend that the Legislature direct the committee to evaluate OCD.

Health and Welfare Agency
DEPARTMENT OF HEALTH SERVICES

Item 426 from the General and various other funds — Budget p. HW 30

Requested 1981–82	$3,216,836,334
Estimated 1980–81	3,015,767,610
Actual 1979–80	2,408,490,726
Requested increase (excluding amount for salary increases) $201,068,724 (+6.7 percent)	
Total recommended reduction	$11,404,515
Recommendations pending	$2,567,029,626

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
426-001-001	Department Support	General	$92,524,929
426-001-044	Forensic Alcohol Analysis	State Transportation	300,552
426-001-188	Energy Resources Fund	Energy Resources	1,543,561
426-001-890	Department Support-Federal	Federal	(190,343,655)
426-101-001	Medi-Cal, Local Assistance	General	2,676,029,948
426-101-890	Medi-Cal, Local Assistance	Federal	(2,251,547,261)
426-111-001	Public Health Local Assistance	General	421,197,293
426-111-890	Public Health Local Assistance	Federal	(19,460,041)
426-121-001	Legislative Mandates	General	180,000
—	Amount payable from other appropriations	General	25,949,801
—	Repayment from Genetic Disease Testing Fund		−889,750
	Total		$3,216,836,334

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

DEPARTMENT OF HEALTH SERVICES—Continued

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 County Health Services and Local Public Health Assistance (a) distributes funds appropriated by AB 8 to local health agencies, (b) administers state and federal subvention programs which provide funds for the support of local public health activities, and (c) provides technical assistance in funding matters to local health departments.

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 addresses the special need of women and children through programs in Family Planning, Maternal and Child Health, and California Children's Services Branches.

The Rural Health Division is responsible for improving the quantity and quality of health services available to underserved rural and Indian populations through

DEPARTMENT OF HEALTH SERVICES—Continued

(a) the contract counties program under which public health services are provided directly in fifteen 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, and (c) the fiscal intermediary contract.

Health Care Policy and Standards 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.

The Office of Organized Health Systems manages the Medi-Cal program's prepaid health plans and pilot projects.

3. Licensing and Certification Division

This division licenses hospitals, nursing homes, clinics, and other health facilities.

4. Audits and Investigations Division

This 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, (d) billing abuses, and (e) public health contract audits.

5. Administration Division 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 the health status and needs of the state.

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 $5,747,159,823 from all funds for support of Department of Health Services program in 1981–82. This is an increase of $493,895,348, or 9.4 percent, above estimated current year expenditures. The budget proposes the expenditure of $3,214,992,221 from the General Fund in 1981–82, which is an increase of $199,510,851, or 6.6 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
Department of Health Services
Positions

	Actual 1979–80	*Estimated 1980–81*	*Proposed 1981–82*	*Change from 1980–81* Number	*Change from 1980–81* Percent
Preventive Health Services	1,175.8	1,295.1	1,318.3	23.2	1.8%
Medical Care Services	810.7	890.4	977.7	87.3	9.8
Licensing and Certification	210.4	228.7	232.4	3.7	1.6
Audits and Investigations	368.2	406.4	422	15.6	3.8
Administration and Director's Office	686.9	756.7	771.7	15	2.0
Special Projects	309.1	599.8	796.5	196.7	32.8
Total	3,561.1	4,177.1	4,518.6	341.5	8.2%

The budget includes 4,518.6 positions, including special projects, an increase of 341.5, or 8.2 percent, above the number of authorized positions in the current year. Table 1 shows the number of positions by major organizational units.

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

- Support: $43,385,072 (16.1 percent)
- Public health local assistance: $7,607,287 (1.6 percent)
- Medi-Cal local assistance: $442,902,989 (9.8 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 1979–80	*Estimated 1980–81*	*Proposed 1981–82*	*Percent Change from 1980–81*
Support Budget				
Preventive Health Services	NA	$58,229,922	$62,147,711	6.7%
Medical Care Services	NA	40,371,843	44,092,745	9.2
Licensing and Certification		13,046,455	13,718,855	5.2
Audits and Investigations	NA	14,723,003	15,734,721	6.9
Administration and Director's Office	NA	33,287,824	35,749,878	7.4
Subtotals	$123,467,675	$159,659,047	$171,443,910	7.4%
Special Projects	59,024,573	109,249,873	140,850,082	28.9
Totals	$182,492,248	$268,908,920	$312,293,992	16.1%
Public Health Local Assistance				
Preventive Health Services	$97,649,328	$144,742,158	$141,943,560	−1.9%
Local Government Relief	264,972,820	318,910,133	329,316,018	3.3
Legislative Mandates	88,878	180,000	180,000	—
Subtotals	$362,711,026	$463,832,291	$471,439,578	1.6%
Medi-Cal Program Local Assistance				
Health Care Benefits	$3,293,840,679	$4,292,526,480	$4,759,300,531	10.9%
Fiscal Intermediary Contract	51,801,908	62,709,400	40,673,700	−35.1
County Eligibility Determinations	139,537,878	165,287,384	163,452,022	−1.1
Subtotals	$3,485,180,465	$4,520,523,264	$4,963,426,253	9.8%
Totals	$4,030,383,739	$5,253,264,475	$5,747,159,823	9.4%

Table 3 identifies the main components of the General Fund increase in the department's General Fund support budget.

Table 3
Proposed General Fund Adjustments for the Department of Health Services Support Budget
Item 426-001-001

	Cost	*Total*
1. 1980–81 Final Approved Budget		$76,172,598
2. Baseline Adjustments for Existing Programs		
A. Increase in Existing Personnel Costs		
1. Cost of Living Increase	$3,335,869	
2. Merit Salary Adjustments	434,933	
3. OASDI	237,518	
4. Retirement	663,230	
5. Health Benefits	206,047	

DEPARTMENT OF HEALTH SERVICES—Continued

6. Adjustment for Lagged Hiring	210,260	$5,087,857
B. Seven Percent Increase on Operating Expenses and Equipment		1,924,176
C. Onetime Expenditures		
1. Nursing Home Investigations	−$250,000	
2. Limited Term Positions	−970,359	
3. Equipment for 1980–81 New Positions	−216,881	
4. Office of Administrative Law Support	104,162	
5. Other	−46,283	−1,379,361
3. Increased General Fund Costs Due to a Reduction in Federal Funding of Licensing and Certification Program		941,549
4. Program Change Proposals for 1981–82		
A. Worksite Health Promotion	$500,000	
B. Budget Change Proposals	8,933,310	
C. Legislation	344,800	9,778,110
5. Total General Fund, Item 426-001-001		$92,524,929

1. PUBLIC HEALTH PROGRAMS

A. SUMMARY

Public health programs are administered by the Chief Deputy Director, Preventive Health Services. Table 4 displays the estimated current year and proposed 1981–82 positions and operating budget for each public health program.

Table 4
Public Health Programs Positions and Operating Budget
Excluding Administrative Overhead

	Positions[a]			*Operating Budget All Funds*		
	Estimated 1980–81	*Proposed 1981–82*	*Percent Change*	*Estimated 1980–81*	*Proposed 1981–82*	*Percent Change*
County Health Services	35.0	37.0	5.7%	$1,379,410	$1,358,232	−1.5%
Public and Environmental Health	(1,042.7)	(1,067.7)	(2.4)	(44,332,552)	(47,602,411)	(7.4)
Division Office	8.0	8.0	–	411,322	424,734	3.3
Environmental Health	366.5	382.7	4.4	14,139,773	15,990,504	13.1
Laboratory Services	390.3	392.3	0.5	18,830,831	19,810,432	5.2
Preventive Medical Services	178.0	184.8	3.8	8,252,106	8,657,130	4.9
Vital Statistics	99.9	99.9	–	2,698,520	2,719,611	0.8
Community Health Services	(213.1)	(212.1)	(−0.5)	(8,277,553)	(8,806,464)	(6.4)
Division Office	15.0	15.0	–	719,503	761,721	5.9
Family Planning	37.5	41.0	9.3	1,021,221	1,146,465	12.3
Maternal and Child Health	90.6	84.1	−7.2	4,477,707	4,751,535	6.1
California Children's Services	70.0	72.0	2.9	2,059,122	2,146,743	4.3
Rural Health	(121.0)	(120.0)	(−0.8)	(4,240,407)	(4,380,604)	(3.3)
Division Office	4.2	4.2	–	143,461	152,251	6.1
Consultation Section	6.0	6.0	–	353,566	364,627	3.1
Indian Health	13.8	13.8	–	470,668	465,098	−1.2
Field Operations	80.0	80.0	–	2,806,028	2,944,592	4.9
Farmworker Health	7.0	7.0	–	217,053	218,904	0.8
Program Support	10.0	9.0	−10.0	249,631	235,132	−5.8
Subtotals	1,411.8	1,436.8	1.8%	$58,229,922	$62,147,711	6.7%
Special Projects	599.8	796.5	32.8	109,249,873	$140,850,082	28.9
Totals	2,011.6	2,233.3	11.0%	$167,479,795	$202,997,793	21.2%

[a] Position counts do not reflect salary savings.

Table 5 provides data on local assistance funding administered by each departmental unit, and Table 6 displays proposed 1981–82 changes in the public health local assistance programs.

Table 5
Public Health Programs Local Assistance
(in thousands)

	Estimated 1980-81		Proposed 1981-82		Percent Change	
	General Fund	All Funds	General Fund	All Funds	General Fund	All Funds
County Health Services	($344,541.7)	($349,623.2)	($354,872.8)	($359,954.3)	(3.0%)	(3.0%)
Local Government Relief (AB 8)	318,910.1[b, c]	318,910.1[b, c]	329,316.0	329,316.0	3.3[b]	3.3[b]
State Formula Funds	705.0	705.0	705.0	705.0	–	–
314(d) Formula Funds	–	5,081.5[f]	–	5,081.5[f]	–	–
County Capital Expansion	24,926.6[c]	24,926.6[c]	24,851.7[c]	24,851.7[c]	−0.3	−0.3
Public and Environmental Health	(7,808.7)	(7,808.7)	(6,354.4)	(6,354.4)	(−18.6)	(−18.6)
Preventive Medical Services	5,861.2	(5,861.2)	(6,354.4)	(6,354.4)	(8.4)	(8.4)
Tuberculosis Control	397.8	397.8	397.8	397.8	–	–
Public Health Nursing Services to the Aged	1,273.3[c]	1,273.3[c]	1,196.5	1,196.5	−6.0	−6.0
Emergency Medical Care Delivery Systems	309.4	309.4	–	–	−100.0	−100.0
Renal Dialysis	781.5	781.5	781.5	781.5	–	–
Immunization Assistance	1,293.3	1,293.3	1,293.3	1,293.3	–	–
Dental Prevention	1,300.0[c]	1,300.0[c]	1,500.0[c]	1,500.0[c]	15.4	15.4
Risk Reduction	506.0	506.0	506.0	506.0	–	–
Lupus Erythematosis Research	–	–	679.3[a]	679.3[a]	NA	NA
Environmental Health Services	(1,947.5)	(1,947.5)	–	–	(−100.0)	(−100.0)
Pest Abatement	1,947.5[c]	1,947.5[c]	–	–	−100.0	−100.0
Community Health Services	(78,863.9)	(98,367.9)	(77,647.6)	(97,151.6)	(−1.5)	(−1.2)
Primary Care Clinics	900.0[c]	900.0[c]	900.0[c]	900.0[c]	–	–
Family Planning	35,242.3	39,242.3[r]	35,008.8	39,008.8[r]	−0.7	−0.6
Maternal and Child Health	(4,912.7)	(14,586.5)	(2,428.4)	(12,102.2)	(−50.6)	(−17.0)
Genetic Disease Prevention Huntington's Disease Research	180.0[c]	180.0[c]	–	–	−100.0	−100.0
Sickle Cell Anemia	474.6	474.6	474.6	474.6	–	–
Amniocentesis	577.7	577.7	577.7	577.7	–	–
Tay-Sachs Disease	428.7	428.7	428.7	428.7	–	–
Maternal and Child Health	–	9,362.2[f]	–	9,673.8[f]	–	3.3
Perinatal Health Care						
Perinatal Access	742.5[c]	742.5[c]	742.5	742.5	–	–
Infant Dispatch	204.9	204.9	204.9	204.9	–	–
High Risk Infant Project	1,006.0	1,006.0	–	–	−100.0	−100.0
Oakland Perinatal Project	1,298.3	1,610.0[f]	–	–	−100.0	−100.0
California Children's Services	(37,309.0)	(43,139.2)	(39,310.5)	(45,140.7)	(5.4)	(4.6)
Genetically Handicapped Persons	4,670.1	4,670.1	4,494.4	4,494.4	−3.8	−3.8
California Children's Services	32,613.9	38,444.1[f, r]	34,791.1	40,621.3[f, r]	6.7	5.7
Immunization Reaction	25.0[c]	25.0[c]	25.0[c]	25.0[c]	–	–
Long Term Care and Aging						
Adult Day Health	500.0[c]	500.0[c]	–	–	−100.0	−100.0
Rural Health	(7,852.4)	(7,852.4)	(7,799.3)	(7,799.3)	(−0.7)	(−0.7)
Indian Health	2,665.1	2,665.1	2,638.6	2,638.6	−1.0	−1.0
Rural Health						
Technical Assistance	435.1	435.1	435.1	435.1	–	–
Rural Clinics	3,438.0	3,438.0	3,411.5	3,411.5	−0.8	−0.8
Primary Care Clinics	400.0	400.0	400.0	400.0	–	–
Farmworker Health	914.2	914.2	914.2	914.2	–	–
Legislative Mandates	180.0	180.0	180.0	180.0	–	–
Totals	$439,246.8	$463,832.3	$446,854.0	$471,439.6	1.7%[b]	1.6%[b]

DEPARTMENT OF HEALTH SERVICES—Continued

[a] This program was included in the support budget in 1980–81.
[b] 1980–81 estimated AB 8 expenditures include $5,287,703 which was actually spent in 1979–80. If the 1980–81 figures are adjusted to exclude this amount, the percent change in AB 8 expenditures from 1980–81 to 1981–82 would be 5.0 percent. The percent change in total General Fund expenditures would be 3.0 percent, and the percent change in total expenditures of all funds would be 2.8 percent.
[c] Includes chaptered funds or special funds.
[f] Includes federal funds.
[r] Includes family repayments or reimbursements.

Table 6
Department of Health Services
Public Health Programs Local Assistance
Proposed 1981–82 Budget Changes

	General Fund	*Total Funds*
1980–81 Current Year Revised	$439,246,750	$463,832,291
I. Baseline Adjustments		
A. One Time Expenditures		
AB 8 1979–80 expenditures shown in 1980–81	−5,287,703	−5,287,703
Public health nursing (Chapter 1274, Statutes of 1980)	−76,800	−76,800
Emergency medical services delivery systems	−309,364	−309,364
Pest abatement (Chapter 78, Statutes of 1980)	−1,947,473	−1,947,473
Huntington's disease research (Chapter 1153, Statutes of 1980)	−180,000	−180,000
High-risk infant followup	−1,006,010	−1,006,010
Oakland perinatal project	−1,298,329	−1,609,972
Adult day health (Chapter 911, Statutes of 1980)	−500,000	−500,000
B. Transfers to Support Item		
Capital outlay (Chapter 1351, Statutes of 1980)	−74,864	−74,864
Family planning	−233,490	−233,490
Indian health	−26,559	−26,559
Rural clinics	−26,559	−26,559
C. Transfer from Support Item		
Lupus erythematosis	679,344	679,344
D. Other Transfers		
Transfer federal funds from Oakland perinatal project to maternal and child health	-	311,643
Totals, Baseline Adjustments	−$10,287,807	−$10,287,807
II. Caseload and Cost Adjustments		
AB 8 population increase	720,149	720,149
Expand dental program to additional schools per legislation	200,000	200,000
GHPP revised caseload and cost estimates	−343,867	−343,867
CCS caseload increase	1,493,229	1,493,229
Totals, Caseload and Cost Adjustments	$2,069,511	$2,069,511
III. Cost of Living Adjustments		
AB 8 (4.75 percent)	$14,973,439	$14,973,439
GHPP (4.75 percent on inpatient services)	168,196	168,196
CCS (4.75 percent on inpatient services)	683,948	683,948
Totals, Cost of Living Adjustments	$15,825,583	$15,825,583
IV. Program Change Proposals		
None.		
Totals, Budget Changes	$7,607,287	$7,607,287
1981–82 Proposed Expenditures	$446,854,037	$471,439,578

Budget Changes. The budget proposes funds for significant new workload in toxic chemical waste regulation. Other new programs proposed in the budget include (a) a pilot project to register birth defects, (b) expanded hospital infection control activities, and (c) a "worksite health promotion and model health insurance program" which would "promote wellness." The budget proposes continuation of the primary care clinics grants program and the dental disease prevention program, which were established and initially funded through legislation chaptered in 1979.

The budget proposes an "in lieu" appropriation of $329.3 million to the County Health Services Fund for distribution to counties under AB 8. This appropriation would replace the statutory appropriation. The budget amount includes a 4.75 percent cost of living increase, *which is $30.4 million less* than the amount which would be provided by the statutory formula based on projected inflation and population growth.

Cost of Living Adjustments in Public Health Local Assistance Programs

The budget includes 4.75 percent cost of living adjustments for AB 8 local government fiscal relief funds and for inpatient services provided under California Children's Services (CCS) and the Genetically Handicapped Person's Program (GHPP). No cost of living adjustments are included for other programs. Table 7 displays the cost of one percent adjustments for each category of program or service.

Table 7
Public Health Local Assistance Programs
Cost of Living Adjustments
(Total Program Expenditures)

Type of Program or Service	*Percent Adjustment Included in 1981–82 Budget*	*Cost of Each One Percent Adjustment*
1. AB 8 local government relief	4.75%	$3,152,303
2. Inpatient services		
• CCS	4.75	149,275
• GHPP	4.75	34,610
3. Outpatient services		
• CCS	–	223,913
• GHPP	–	8,652
• Family planning	–	328,268
4. Local agency services	–	237,690

1. ***AB 8 local government relief.*** AB 8 provides for automatic increases in the annual appropriation to the County Health Services Fund for local government fiscal relief, based on a formula involving population and inflation. The budget proposes a 4.75 percent cost of living adjustment instead of the inflationary factor provided in statute. We estimate that the cost of living adjustment provided by the statutory provisions would be 14.5% , based on current estimates of inflation.

DEPARTMENT OF HEALTH SERVICES—Continued

2. ***Inpatient services.*** CCS and GHPP reimburse hospitals according to rates established by the Medi-Cal program. The budget includes a 4.75 percent cost of living adjustment for these services. This is inconsistent with the 15 percent cost of living adjustment included in the budget for similar services provided under the Medi-Cal program.

3. ***Outpatient services.*** CCS, GHPP and family planning reimburse providers of outpatient services on a fee-for-service basis. The budget does not include a cost of living adjustment for these programs.

4. ***Local agency services.*** The department funds a broad range of local agency services on a prospective budget basis. These programs are listed in Table 5. No cost of living adjustments are included in the budget for these programs.

B. COUNTY HEALTH SERVICES

The budget proposes $361,312,495 (all funds) for support of the Office of County Health Services and Local Public Health Assistance, excluding administrative overhead. This is an increase of $15,597,546, or 4.5 percent, over estimated current year expenditures. Department support is proposed in the amount of $1,358,232, which is $21,178, or 1.5 percent, less than estimated current year expenditures. Local assistance, including AB 8 fiscal relief, is proposed in the amount of $359,954,263, which is $15,618,724, or 4.5 percent, above estimated current year expenditures.

These figures are based on estimated 1980–81 expenditures which have been adjusted to exclude $5,287,703 which is incorrectly shown as a 1980–81 expenditure in the budget. This amount should be included in the 1979–80 expenditure figures.

The budget proposes new positions to implement 1980 legislation including: (a) Chapter 1204 (AB 3122), which establishes a pilot testing program for certification of public health nurses, (b) Chapter 277 (AB 1396), which establishes a two year effort to recodify public health statutes, and (c) Chapter 1351 (AB 3245), which provides funds for capital outlay at county facilities.

The local assistance increase is due to a 4.75 percent cost of living adjustment proposed for local government fiscal relief funds which are distributed under provisions of AB 8. No cost of living increase is proposed for other local assistance funds of approximately $30 million.

Scope of AB 8 (Chapter 282, Statutes of 1979)

AB 8 provides fiscal relief to replace property tax revenues lost by local agencies as a result 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. An amount 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. The agreement commits the county 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 can be allocated if the county demonstrates that it did not detrimentally reduce its health services. Counties could not receive matching funds which exceed 60 percent of budgeted county costs above $3 per capita, as adjusted for inflation.

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

AB 8 Cost of Living Adjustment

The Budget Bill includes language which would override the automatic appropriation provisions of AB 8, and proposes instead an appropriation of $329,316,018. This is $15,693,588, or five percent, above estimated current year expenditures, and $30.4 million, or nine percent, below the estimated 1981–82 expenditures which would be made under existing law.

The proposed appropriation to the County Health Services Fund is calculated based on the following assumptions:

1. ***Cost of living adjustment.*** The budget proposes a 4.75 percent cost of living adjustment. Based on projected inflation, we estimate that a 14.5 percent increase would be provided automatically if AB 8's provisions remain effective. The cost of each additional percent increase is $3.2 million.

2. ***Nevada County adjustment.*** Pursuant to the provisions of Chapter 1072, Statutes of 1980 (SB 1750), the budget reflects an adjustment of approximately $200,000 in the maximum allocation available to Nevada County under AB 8. These funds were transferred from the contract counties program, under which the state provides public health services directly in small rural counties. Nevada County is no longer eligible for the contrct counties program because its population exceeds 40,000.

3. ***Berkeley adjustment.*** Chapter 1133, Statutes of 1979 (AB 339) supplemented Alameda County's allocation with funds for services provided in the City of Berkeley, which has its own health department. One subsection of the act relating to required contracts between Alameda County and the City of Berkeley will not be effective in 1981–82. The department has interpreted this to mean that Alameda County's allocation shall be reduced in 1981–82, with a corresponding reduction in appropriations to the County Health Services Fund. Our analysis indicates that this interpretation is incorrect, and that the appropriation is underestimated. An additional $887,706 would be required to fully fund a 4.75 percent cost of living adjustment.

Capital Outlay Program

Chapter 1351, Statutes of 1980, appropriates $25 million in 1980–81 and $25 million in 1981–82 for grants and loans for capital expenditures at county health facilities. Grants are limited to 50 percent of the total project cost, and the loans are limited to 80 percent of project costs. Under the act, the department has the authority to (a) determine the extent to which financial assistance is provided in the form of grants versus loans, (b) develop criteria for reviewing county applications for financial assistance, and (c) award grants and loans to counties.

The department intends to develop criteria for awarding the grants or loans and issue a Request for Proposal by March 1981. The department anticipates awarding the funds by the end of 1981. Five positions were administratively established in the current year and are included in the budget.

Funds Distributed by AB 8

In 1979–80, 35 counties planned to spend more than the amount required to obtain their full AB 8 allocations—that is, they proposed to overmatch available AB 8 funds. The 35 counties all received their full allocations. Three counties were not eligible for AB 8 matching funds of 50 percent because they proposed to spend less than their per capita allocation. These three counties received their full per capita allocation but not any matching funds.

The remaining 20 counties planned to spend less than required to obtain their

DEPARTMENT OF HEALTH SERVICES—Continued

full allocation—that is, they proposed to undermatch available AB 8 funds. Fifteen counties demonstrated through a hearing process that detrimental reductions in health services were not proposed. Thirteen of these fifteen counties received their full allocation. Two of the fifteen counties received less than their full allocation due to the 60 percent limitation. A total of $741,295 was not distributed to these two counties. The remaining five counties did not hold hearings, and thus did not receive their full allocation. A total of $135,109 was not distributed to these five counties.

The total amount of undistributed funds was $876,404. This amount could be significantly greater if counties underspent their budgets and are required to return matching funds to the state. As of mid-January, no data are available on actual 1979–80 expenditures or 1980–81 county budgets. The department has received expenditure reports and most county plans and budgets, but has not completed its review of the materials.

Special Needs and Priorities Funds

We recommend adoption of Budget Bill language which would (a) revert uncommitted "special needs and priorities" funds and (b) require reporting to the Legislature prior to expenditure of committed funds. We further recommend enactment of legislation to remove the special needs and priorities provisions of AB 8 (Item 426-111-001).

Undistributed funds may be reallocated on a matching basis to counties "in accord with special needs and priorities established by the director." The amount of AB 8 funds which will be available for special needs and priorities from the 1979–80 appropriation is estimated to be $876,404 at a minimum. The department has committed these funds for the following purposes:

- $300,000 for control of encephalitis-bearing mosquitoes by agencies which did not qualify for Chapter 78, Statutes of 1980 funds.
- $250,000 for control of rodents which carry plague.
- $300,000 for development of county "organized health systems."

The balance—$26,404—had not been committed at the time this Analysis was prepared.

Only about $125,000 of the funds committed for special needs and priorities have actually been awarded to counties as of mid-January. The funds were allocated for mosquito control. The remaining $175,000 allocated to mosquito control will not be utilized because counties have not applied for the funds.

We recommend that the programs proposed for support with special needs and priorities funds undergo the same legislative review as other departmental programs, for the following reasons:

1. ***The department has not developed a systematic process for allocating funds.*** The department was unable to provide our office with the criteria which were utilized in allocating funds to the purposes outlined above.
2. ***There are currently no requirements for legislative review of proposed expenditures of these funds.***
3. ***The proposed purposes may conflict with legislative priorities.***

For example:

a. The plague control allocations were made notwithstanding (1) the Joint Legislative Budget Committee's recommendation to the Director of Finance that funds for plague control not be allocated to Los Angeles County (the director had advised the committee, pursuant to Section 28 of the 1979 Budget Act that she intended to authorize unbudgeted expenditures by the Department of Health Services for this purpose), and (2) the failure of AB 2535 (1980) to be enacted (AB 2535 would have specifically author-

ized the department to allocate special needs and priorities funds for plague control).

b. Our review of departmental proposals for funding expansion of county "organized health systems" indicates that such expenditures are unjustified (see page 807).

4. ***We estimate that a significant amount of funds will be available to the department from this source in the future.*** The amount of funds available from the 1979–80 AB 8 appropriation for special needs and priorities could increase significantly if county expenditures are lower than the amounts budgeted. We have no reason to conclude that the amount of funds available for special needs and priorities from the 1980–81 AB 8 appropriation will be any less than in 1979–80. The amount of funds available for special needs and priorities from the 1981–82 appropriation will depend on the cost of living adjustment provided by the Legislature and the counties' general fiscal situation.

We recommend that the Legislature:

1. Adopt Budget Bill language which will revert to the unappropriated General Fund surplus any 1979–80 special needs and priorities funds which have not been committed and all funds which become available from the 1980–81 and 1981–82 appropriations for special needs and priorities.

2. Adopt Budget Bill language requiring the Director of Health Services to notify the Legislature at least 30 days prior to expenditure of funds committed for special needs and priorities (this language would be similar to language in Section 28 of the Budget Bill).

3. Enact legislation which would remove the special needs and priorities provisions of AB 8, and require instead that undistributed funds revert to the General Fund.

C. PUBLIC AND ENVIRONMENTAL HEALTH

The budget proposes $53,956,814 (all funds) for support of the Public and Environmental Health Division excluding administrative overhead. This is an increase of $1,815,566, or 3.5 percent, above extimated current year expenditures. Department support is proposed in the amount of $47,602,411, which is $3,269,859, or 7.4 percent, above estimated current year expenditures. Local assistance is proposed in the amount of $6,354,403, which is $1,454,293, or 18.6 percent, below estimated current year expenditures.

The increase in the support budget is primarily due to requests for (a) $500,000 for a new "worksite health promotion and model health insurance program," and (b) 25 new positions and $1.9 million for activities related to regulation of toxic materials. The budget also proposes continuation of 22 additional toxics positions which were approved by the Legislature on a limited term basis in 1980–81.

In addition, the budget also proposes (a) three positions and $139,367 to establish a birth defects registry on a pilot basis, (b) three positions and $105,226 to expand the hospital infection control program, (c) 3.5 positions to implement 1980 legislation which establishes programs for chronic lung disease and diethylstilbestrol (DES), and (d) minor staffing increases in several units related to workload.

The decrease in the local assistance budget for 1981–82 reflects the inclusion of certain one time expenditures in the current year totals: (a) $1.9 million in local grants for control of encephalitis-bearing mosquitoes, authorized by Chapter 78, Statutes of 1980, and (b) $309,364 for two local emergency medical care agencies. The budget reflects increases in local assistance expenditures due to (a) transfer of $679,344 for lupus erythematosis research from the support budget to the local assistance budget, and (b) expansion of the dental disease prevention program to additional schools at a cost of $200,000.

DEPARTMENT OF HEALTH SERVICES—Continued

Toxic Materials Proposals

The 1980 Budget Act added 54 positions and $2.2 million to expand the department's hazardous materials regulatory program in the current year. The budget proposes (a) to continue 22 of 23 positions which were scheduled for termination in July 1981, and (b) 25 new positions and $1.9 million to expand current functions and implement 1980 legislation. The current year expansion and budget year proposals are intended to reduce threats to environmental quality and human health posed by the improper disposal, transportation, or handling of toxic materials.

Current Departmental Activities

The department's enforcement activities include regulation of disposal sites and hazardous waste transportation by the Hazardous Materials Management Section. The disposal site program involves (a) classification of sites depending on the types of wastes which may be accepted and (b) periodic inspection to assure that proper practices are followed. The hazardous waste transportation program involves (a) registration of haulers, (b) certification of vehicles which pass California Highway Patrol inspections, and (c) reports on each load of waste handled by producers, haulers, and disposal site operators. The section monitors the reports to determine whether wastes are disposed of properly. Twenty-two of the 54 new positions established in 1980–81 were utilized to expand enforcement activities.

The section is also involved in the following related activities: (a) analyzing disposal requirements and planning for facilities, (b) developing alternatives to disposal such as recycling, (c) providing technical assistance to local agencies and industry, and (d) locating abandoned dump sites. Twenty-three limited-term positions were established in 1980–81 to expand the abandoned dump site search.

The enforcement and related activities are funded by (a) fees from the Hazardous Waste Control Account (HWCA) of the General Fund, (b) the General Fund, and (c) federal Resource Conservation and Recovery Act (RCRA) funds provided through the Solid Waste Management Board.

The remaining nine positions of the 54 approved in 1980–81 were utilized to establish an environmental toxins epidemiology unit in the Epidemiological Studies Section. This unit is funded from the General Fund and performs studies of disease patterns to determine the health effects of hazardous wastes.

The department's current activities also include operation of a "Hazard Evaluation Search Service" 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.

Legislation Affecting Hazardous Waste

Eleven bills enacted during the 1980 session substantially expand the authority of the department to regulate transportation, handling, and disposal of hazardous wastes, and land use around disposal sites. Under previous law, hazardous wastes could be disposed only at authorized on-site or off-site waste disposal facilities, and could be transported only in certified vehicles by haulers. The department was not authorized to regulate land use. Three of the 11 statutes have the following significant fiscal effect:

Chapter 806 (SB 1467) makes technical changes in existing law to clarify that on-site disposal of hazardous waste is subject to disposal fees. We estimate revenues of $770,000 annually to the Hazardous Waste Control Account as a result of this act.

Chapter 808 (AB 2700) authorizes the department to require violators of hazardous waste disposal restrictions to take corrective action, including cleanup and

abatement. The act also authorizes the department to take immediate corrective action, if necessary, and recoup reasonable costs from the responsible parties. The department is authorized to spend up to $100,000 annually for this purpose. Although this act will result in increased expenditures and revenues, we estimate that it will have no net fiscal effect on the state.

Chapter 1161 (AB 2370) places restrictions on use of land which contains or is within 2,000 feet of land containing hazardous deposits. The act allows the department to designate land as "hazardous waste land" or "border zone land" if waste deposits present a "significant existing or potential hazard to present or future public health on the land in question." The act requires land owners who believe their land could be hazardous waste or border zone land, and who intend to build schools, hospitals or homes, to apply to the department for determination whether the land should be so designated. The act requires public hearings prior to such designation, and specifies procedures for appealing or changing the department's determination. The act prohibits construction of schools, hospitals and homes on border zone land, and *any* new land use on hazardous waste land unless a written variance has been obtained from the department.

The act specifies that the cost of administering this act shall be paid from the Hazardous Waste Control Account in the General Fund. The act appropriated $105,000 from the Hazardous Waste Control Account to establish the program. The budget includes seven positions and $387,859 from the Hazardous Waste Control Account for ongoing program administration. Four positions were administratively established in the current year.

Federal Activities

In May 1980 the Environmental Protection Agency (EPA) issued regulations which govern operation of state hazardous waste programs under the RCRA. The department does not anticipate any significant problems in complying with the new regulations, and has applied to the EPA for interim approval of the state program. The department expects EPA to approve its application by February 1981. The department has begun work on its application for final approval.

Federal legislation enacted in December 1980 established a $1.6 billion "superfund" for financing the costs of cleaning up abandoned hazardous waste deposits. The EPA has not yet issued regulations implementing the new law and it is too soon to tell how the act's complex provisions will affect California.

Budget Year Proposal

The budget includes seven positions and $387,859 from the Hazardous Waste Control Account to implement Chapter 1161, Statutes of 1980 (AB 2370). In addition the budget proposes:

1. Thirty-three positions and $1,115,019 from the Energy and Resources Fund to continue the abandoned dump site search and to begin analysis of the composition of wastes which are deposited on the sites. The request consists of (a) continuation of 22 of 23 positions which were scheduled for termination in July 1981, and (b) 11 new positions.
2. Four positions and $497,185 ($258,600 from the Energy and Resources Fund and $238,585 from the Hazardous Waste Control Account) to expand existing programs in waste recovery and recycling.
3. Two positions and $443,972 from the Energy and Resources Fund to begin planning for development of new disposal sites.
4. One position and $81,341 from the General Fund to provide laboratory support for the environmental toxins epidemiology unit established in the current year.

DEPARTMENT OF HEALTH SERVICES—Continued

1a. Abandoned Dump Search-Staff Request

We recommend deletion of 10 positions and $334,637 from the Energy and Resources Fund which are proposed to continue the abandoned hazardous waste dump site search in Item 426-001-188 because the positions are not justified on the basis of workload.

In the current year, the Legislature approved 23 limited term positions and $661,430 ($387,400 from the General Fund and $274,030 from RCRA funds) so that the department could conduct a one-year, statewide search for abandoned hazardous waste dumps. The search effort involves: (a) sending questionnaires to companies in certain industries regarding past disposal practices, (b) reviewing files of governmental agencies (for example, files of waste discharge premits or water quality enforcement actions), (c) field investigations of priority sites to determine whether imminent danger exists, and (d) developing recommendations for clean-up.

The search began on a pilot basis on Contra Costa County in 1979–80. In discussing its budget for the current year with us in January 1980, the department indicated that it expected minimal problems in meeting the schedule for completion of the proposed statewide search because the methodology for locating dumps had been tested in the pilot project.

The department now indicates that the project: (a) will not be completed until June 1983, two years behind its original schedule, (b) will require 84 person years to complete, which is an increase of 265 percent over the 23 person years identified in the original proposal, and (c) will cover only the major industrial and agricultural counties. The budget requests 33 positions and $1,115,019 from the Energy and Resources Fund to continue the project.

The department indicates that the revisions in projected completion date and staff requirements are due to the following:

- The most effective methods for locating abandoned dumps were determined only after an initial trial and error period.
- The tasks are much more difficult than anticipated.
- The project has located more potential sites than anticipated.
- The project has experienced difficulties hiring graduate students in some areas.
- Some phases of the projects are subject to significant delays. For example, follow up on unanswered questionnaires is subject to delay.

The department assured us that the project is now proceeding smoothly and rapidly, and that the revised schedule can be met.

Our review of the department's current county by county workplan indicates that the ten position staff increase is not needed. The department indicates that technical staff availability is the critical factor in completing the search. Other staff, including laboratory, clerical, and temporary positions, support the technical staff. Based on estimated requirements for technical staffing to complete the search in each county, we estimate that the number of technical person months required in the period from January 1981 to June 1983 is as follows:

	Number	*Person Months Required Per County*	*Person Months Required*
Priority I Counties	14	6	84
Regions in Los Angeles County	7	9	63
Priority II Counties	13	3	39
Work already performed			−13
Total Person Months			173

This is an average of 5.8 staff persons over the two and one half year projected timetable (173 divided by 30 months). Six professionals are currently available for this technical work, in addition to the unit manager and one person to follow up on quick response issues, so no staffing increase is needed. Accordingly, we recommend deletion of the requested 10 additional positions, for a savings of $334,637 from the Energy and Resources Fund.

1b. Abandoned Dump Search-Double Budgeting

We recommend a reduction of $274,030 from the Energy and Resources Fund (Item 426-001-188) to correct double budgeting.

The request for support of the abandoned dump search program assumes that the project will be fully funded from the Energy and Resources Fund. The department's reimbursement schedule indicates that $274,030 in federal RCRA funds will also be available for the program in 1981–82, but the department has not reduced its request for funds from the Energy and Resources Fund accordingly. For this reason, we recommend a reduction of $274,030 from the Energy and Resources Fund.

2. Waste Recovery and Recycling

We recommend deletion of one position and $42,879 from the Hazardous Waste Control Account (Item 426-001-001). We further recommend that the department establish its own program to develop alternatives to landfill disposal, instead of contracting with the Office of Appropriate Technology (OAT).

The budget proposes four positions and $238,585 from the Hazardous Waste Control Account to (a) expand the department's efforts in waste recovery and recycling (three positions), and (b) to develop regulations on disposal of extremely hazardous waste (one position). The budget also proposes $258,600 from the Energy and Resources Fund to continue the department's contract with the Office of Appropriate Technology (OAT) to develop alternatives to land disposal of hazardous waste.

Waste Recovery. Three of the four new positions would be utilized to expand a waste recovery program which is currently being implemented only in the Bay Area. In this program, the department compares the chemical composition of wastes to the types of chemicals used as raw materials in manufacturing processes, and arranges recycling of wastes if possible. One position is currently assigned to this program.

Our analysis indicates that expansion of the waste recovery program to four positions is justified. However, the department needs only two *new* positions to achieve this staffing level because federal RCRA funds are available to support one position for resource recovery activities. Accordingly, we recommend deletion of one of the proposed new positions.

Extremely Hazardous Waste. The fourth new position would develop regulations on the disposal of extremely hazardous wastes, using the findings of a study which is being performed by OAT in the current year and is scheduled for completion in March 1981. For example, the department could require treatment or incineration of certain wastes. We recommend approval of this position.

Alternatives to Landfill Disposal. The department has a contract with OAT in the current year to (1) characterize hazardous wastes which are disposed off-site according to their suitability for recycling, treatment, incineration, etc., and (2) review incineration technology and study the feasibility of using a molten salt incinerator. The budget proposes to continue the contractual relationship with OAT for an additional year. Under the proposed 1981–82 contract, OAT would (a) review the feasibility of regulatory changes, (b) characterize hazardous wastes which are disposed on-site, and (c) assist the department to acquire a molten salt

DEPARTMENT OF HEALTH SERVICES—Continued

incinerator from the federal Environmental Protection Agency if the feasibility study, which is expected to be complete on June 15, 1981, is favorable. (No funds are included in the budget to install or operate this incinerator.)

Our analysis indicates that efforts to develop and evaluate alternatives to landfill disposal warrant state support. We recommend, however, that the department perform the proposed functions in-house instead of contracting with OAT, because:

1. State law assigns to the department the responsibility for encouraging alternatives to landfill disposal of hazardous waste.
2. The proposed functions are ongoing activities which are closely related to the development of regulations. The technical and institutional issues involved are extremely complex and change rapidly. The department should have its own capability to evaluate potential regulations on an ongoing basis, and not have to rely on one time projects undertaken by OAT.
3. Nine state agencies currently are involved in the management of toxic substances. OAT's performance of line department functions further complicates an already fragmented assignment of responsibilities.

We therefore recommend that the department perform these functions in-house instead of contracting for them with OAT. The department should submit detailed cost estimates for performing these proposed functions in-house prior to budget hearings. In our analysis of the OAT budget (page 66), we recommend deletion of the proposed reimbursement.

3. Facility Siting

We recommend deletion of two positions and $443,972 from the Energy and Resources Fund because staff and funds are already available for facility siting studies (Item 426-001-188).

The budget proposes funding for a new program to identify and technically evaluate potential new hazardous waste treatment and landfill disposal sites. This would be a two-year effort which would focus on southern California in the first year. Of the $443,972 requested for this program, (1) $93,972 would be used to support two positions in the department, $100,000 would be used to contract with the Water Resources Control Board for hydrologic and geologic studies of potential sites, and (3) $250,000 would be used to contract with unspecified local agencies and engineering firms.

The siting effort is needed because the disposal capacity in southern California was severely reduced in 1980. Four Class I disposal sites in southern California stopped accepting hazardous wastes during 1980. Two of these sites closed permanently and two are closed temporarily. Another two sites in southern California are still open, but are subject to intense local opposition. The remaining site, at Kettleman City, is 200 miles from Los Angeles. Four sites with adequate capacity are open in northern California, although some of them have been restricted temporarily in wet weather.

Our analysis indicates that state involvement in site identification and evaluation is warranted because the (a) type of technical expertise required does not exist on the local level, and (b) planning for hazardous waste disposal should be performed on a statewide or regional basis rather than locally. The effect of state involvement in actually establishing new sites is unknown, however, because the department does not have the authority (and does not request funds in the budget) to acquire sites or to preempt local decisions. The department's statement that "the opposition to the development of hazardous waste facilities could be ameliorated to a large extent by the direct involvement of the state in the site

selection and approval process" could be optimistic. Nevertheless, the technical work required to establish new sites should be initiated, and we recommend approval of the project.

The department does not need additional funds or positions, however to establish a siting program, for the following reasons:

1. The department has indicated in the past that it has staff available for this purpose. For example, the state workplan submitted to EPA for federal fiscal year 1980 (October 1979 through September 1980), indicated that 3.4 positions (2.2 federally funded and 1.2 state funded) were allocated to the facility siting function. Furthermore, we were informed by the department in January 1980 that it had staff assigned to facility siting. In fact, the department indicated at that time that 1.5 additional federal positions would become available for this purpose in the current year.

We suggest that the department reassign to facility siting the positions which were originally assigned to this function. If other functions require increased staffing, the department should submit justification.

2. The department is currently negotiating a $550,000 contract with the Los Angeles County Sanitation District to perform essentially the same tasks which are proposed in the budget request. The contract would be funded using: (a) $100,000 in RCRA funds which are identified in the 1981 EPA workplan as being available for facility siting, (b) $200,000 in Clean Water Act Section 208 planning funds from the Water Resources Control Board, and (c) $250,000 in Los Angeles County Sanitation District funds. We know of no reason why these will not continue to be available.

In summary, we recommend approval of the project but recommend deletion of the funds and positions because the necessary resources are already available.

4. Laboratory Support for Environmental Toxins Epidemiology Unit

We recommend deletion of one position and $81,341 from the General Fund for laboratory support for the environmental toxins epidemiology unit due to lack of justification of increased staffing levels (Item 426-001-001).

The budget proposes the addition of one environmental biochemist position and $81,341 from the General Fund to provide laboratory support for the nine position environmental toxins epidemiology unit established in the current year. This unit investigates the health effects of environmental contaminants on a quick response basis. The environmental biochemist would perform laboratory analyses of biological samples to determine whether mutagenic chemicals are present.

The 1980 environmental toxins epidemiology proposal originally requested the establishment of 13 positions, including one environmental biochemist. The Legislature approved establishment of the unit with a staff of nine. It did not specify which four positions should be deleted. The department chose to include the environmental biochemist among the four deleted positions.

Legislative intent on this issue was clearly that the department should perform the proposed functions with nine positions. The department has not submitted any justification for additional functions which are outside of the scope of the original proposal, nor for expanding the size of the unit. We suggest that if an environmental biochemist position is required to support the environmental toxins epidemiology unit, the department should redirect one of the existing nine positions.

Federal RCRA Funds for Hazardous Materials Program

We recommend transfer of 53 positions and $2,655,694 from the special projects item (426-001-890) to the department support item (426-001-001) so that the Legislature will have a better opportunity to review how the funds are to be used.

The budget proposes to support the hazardous materials management program

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primarily from the Hazardous Waste Control Account ($2.7 million), the federal Resource Conservation and Recovery Act ($2.7 million) and the Energy and Resources Fund ($1.5 million). The HWCA and ERF funds are shown in the budget as offsets to expenditures in the main department support item. The RCRA funds are shown in the budget as a reimbursement in the special projects item, not in the main department support item. The funds are shown as reimbursements rather than federal funds because they come through the Solid Waste Management Board.

We recommend transfer of the RCRA funds and the associated positions from the special projects item to the department support item because:

1. The funds are used for an ongoing program which is partially state funded. Programs funded through the special projects item are typically short-term in nature and/or independent of state-funded functions. The program has a few functions which are solely state funded and none which are solely federally funded.

2. In its budget justification materials, the department has consistently not discussed utilization of federal funds which are available to support functions for which state funds are requested. The department provides information on the utilization of the federal funds only when such information is specifically requested. Putting these funds in the department support item would increase the visibility of these funds in the budget process, and give the Legislature (as well as the Department of Finance) an opportunity to review how these funds are to be used.

Other Public and Environmental Health Issues

Worksite Health Promotion and Model Health Insurance Program

We recommend reduction of $475,000 from the General Fund for the proposed worksite health promotion program because program beneficiaries, not the state, should provide funds for the program, and because the proposed evaluation is unlikely to be useful. We further recommend approval of $25,000 for the model health insurance program (Item 426-001-001).

The budget proposes $475,000 for three positions at a cost of $101,000 and contractual funds of $374,000 to establish and evaluate worksite health promotion programs at one private company and one public agency (each with 500–1,000 employees). The budget also proposes $25,000 for a model health insurance program.

The $374,000 in contractual funds for the worksite health promotion program consists of:

- $145,000 for 4.5 positions at the public agency including health educator, education assistant, exercise specialist nurse, nutritionist and clerical staff.
- $40,000 to train private company staff. The private company would be expected to provide its own program staff.
- $37,500 for laboratory tests provided to program participants.
- $37,500 for processing and interpretation of health questionnaires administered to program participants.
- $19,000 for program manuals for participants and equipment.
- $95,000 for program evaluation using data on program utilization, laboratory tests, health questionnaire results, medical insurance utilization and absenteeism.

According to the department, the objective of the proposed program "is to document a model worksite health promotion program, show with systematic data what such a program can accomplish, and develop an evaluation model that other work organizations can apply to their own programs." The proposal includes funds

for establishing worksite health promotion programs at two locations, but the primary focus of the program is the evaluation, rather than program services.

We recommend that funds for this program be deleted, for the following reasons:

1. ***The beneficiaries of these programs should provide funding, not the state taxpayer.*** The primary beneficiaries of improvements in employee health, in addition to the employees, are the employers and insurance companies. We see no reason why employers (including public employers) and insurance companies cannot fund and evaluate worksite health promotion programs when it is clearly to their economic advantage to have healthy employees.

2. ***The evaluation proposed by the department will not be useful to employers.*** The department plans to evaluate only one program model, rather than many types of programs. Further, the one program model which the department plans to evaluate is very expensive, and the benefits are unlikely to be high enough to justify the costs. We estimate ongoing costs of approximately $250 per employee annually for the program model proposed by the department. Costs per *participating* employee would be higher.

3. ***Worksite health promotion programs have been evaluated already.*** Specific worksite programs which have been evaluated include programs for hypertension, anti-smoking, exercise, weight control, and stress reduction. Companies offering comprehensive programs for their employees include Kimberly-Clark, Ford Motor Company, Johnson and Johnson, and SAFECO Life Insurance Company.

We recommend approval of the $25,000 for the model health insurance program. These funds would be used to convene a task force which would recommend methods to change health-related behavior through insurance incentives. Such an effort is needed, and the costs proposed appear to be reasonable.

Fee Adjustments

We recommend that the Legislature direct the Department of Finance to submit a proposal and draft Budget Bill language that would make adjustments to certain public health fees, as required by Chapter 1012, Statutes of 1980. We estimate General Fund revenues could increase by approximately $300,000 in 1981–82 if such adjustments are implemented.

Chapter 1012, Statutes of 1980, provides for automatic annual adjustments of certain fees assessed by the Department of Health Services. Specifically, the act:

1. Establishes automatic annual increases in 52 sections of the Business and Professions, Government, and Health and Safety Codes. The most significant of these fees, in terms of revenues, are related to vital records and x-ray machine registrations.

2. Requires the amount of the annual increase to be determined by the Department of Finance, based on the "percentage change printed in the Budget Act." The fee increase shall not be less than the total percentage change in salaries and operating expenses, nor greater than the amount required to pay for the cost of the program.

3. Requires our office to review proposed fee adjustments and submit written comments.

The act appears to require the Department of Finance to submit fee adjustment proposals as part of the budget process. However, the department (a) has not submitted a proposal, (b) has not proposed any fee increase language in the Budget Bill, and (c) has not included revenues from fee increases in the revenue projections. We recommend that the Legislature direct the department to determine the appropriate amount of fee increases and submit proposed Budget Bill language to implement the fee increases.

If the adjustments called for by Chapter 1012 are implemented, we estimate that General Fund revenue would increase by up to $300,000 in 1981–82. This estimate

DEPARTMENT OF HEALTH SERVICES—Continued

assumes (a) projected 1981–82 fee revenues of $6,033,402 which would be subject to fee increases and (b) a five percent increase in fees.

Reclassification of Fees from Reimbursements to Revenues

We recommend a reduction of $75,404 from the General Fund to correct overbudgeting (Item 426-001-001).

Based on past trends, the department estimates that collections of various public health fees will be $5,624,530 in the current year and $6,033,402 in 1981–82. In the budget document, the fee collections are shown as reimbursements in the current year, but are shown as revenues in 1981–82 to conform with CFIS requirements. To replace the lost reimbursements, the General Fund appropriation for department support has been increased by $6,033,402.

Our analysis indicates that the proposed General Fund increase in the department support appropriation is greater than required to support the current year level of service in the budget year. The required amount is $5,957,998 which equals the current year amount ($5,624,530), plus:

- $196,859 for a seven percent increase in the operating expenses portion of current year expenditures, which is approximately 50 percent of total expenditures for those programs (7% × 50% × $5,624,530),
- $28,123 for a one percent merit salary adjustment for the personal service portion of current year expenditures, which is approximately 50 percent of total expenditures for these programs (1% × 50% × $5,624,530), and
- $108,486 for an increase in certain vital statistics and laboratory expenditures which are funded by fees.

We recommend deletion of the overbudgeted amount, which is $6,033,402 less $5,957,998 or $75,404.

Contractual Funds No Longer Needed

We recommend deletion of $365,966 from the General Fund for contractual services which are no longer required (Item 426-001-001).

In our review of the department's contractual services budget, we identified four projects for which funds are not needed in 1981–82:

1. $26,750 to prepare a training package for sheriffs and other local emergency personnel setting forth procedures for handling emergency situations involving radioactive materials. These funds were justified on a one time basis in the 1980–81 budget.
2. $53,500 to develop facility standards to assure safe decontamination and decommissioning of nuclear facilities. These funds were also justified on a one time basis in the 1980–81 budget.
3. $26,000 of one time costs for evaluating the dental disease prevention program. The 1980–81 contract is for $42,000 and the department anticipates that it will need $16,000 in 1981–82 to continue this function.
4. $259,716 for a contract with the Office of Appropriate Technology to develop alternatives to land disposal of hazardous waste. Funds for this contract are included *twice* in the budget. Eliminating this amount would correct the budgeting error. (Our analysis of the department's proposal to extend this contract into the 1981–82 fiscal year appears on page 737.)

Forensic Alcohol Analysis

We recommend approval (Item 426-001-044).

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 charged with traffic 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 $300,552 from the Motor Vehicle Account, State Transportation Fund, to support this program in 1981–82. This is a five percent increase over estimated current year expenditures of $286,240.

D. COMMUNITY HEALTH SERVICES

The budget proposes $105,958,089 (all funds) for support of the Community Health Services Division, excluding administrative overhead. This is a decrease of $687,412, or 0.6 percent, below estimated current year expenditures. Department support is proposed to be in the amount of $8,806,464, which is $528,911, or 6.4 percent, above estimated current year expenditures. Local assistance is proposed in the amount of $97,151,625. This is $1,216,323, or 1.2 percent, below estimated current year expenditures.

The increase in department support is due to addition of (a) four federally funded positions to perform an evaluation of the obstetrical access project and (b) 8.5 positions in various units related to workload increases. The budget reflects termination of 5.8 positions associated with the Oakland perinatal project.

The decrease in local assistance is due to termination of (a) the Oakland perinatal project, (b) the high-risk infant followup project, (c) the Huntington's disease research program, and (d) the adult day health care grant program. The budget proposes $1.5 million for a 5 percent caseload increase in California Children's Services (CCS), and a reduction of $300,000 in funds for the Genetically Handicapped Person's Program (GHPP), due to revised caseload and cost estimates. The budget proposes $900,000 for a 4.75 percent cost of living increase for inpatient services provided through the CCS and GHPP programs.

Clinics Program

Chapter 1186, Statutes of 1979, 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 were 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). The 1980 Budget Act appropriated an additional $617,561 to supplement the building renovation and equipment acquisition portion of the program.

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 requires clinics to match state funds, but this requirement may be waived. The Divisions of Community Health Services and Rural Health administer this program.

The department awarded 27 grants totaling $1,295,644 in 1980–81. Five grants totaling $278,512 were awarded to clinic associations for provision of technical assistance to member clinics. The remaining 22 grants were awarded to clinics for operating costs.

2. ***Building renovation and equipment acquisition grant and loan program ($1,317,561).*** The act specifies that grants and loans shall be provided to clinics for projects intended to meet licensing requirements, fire and safety standards, and handicapped accessibility standards. The maximum grant award is $50,000.

DEPARTMENT OF HEALTH SERVICES—Continued

The Office of Statewide Health Planning and Development administers the grant and loan program.

The office has awarded grants and loans totalling $1,216,236 under this program. Authority for this program expired on December 31, 1980.

3. ***Administration ($100,000).*** The act provided $100,000 to the department for administrative costs.

Budget Request for Clinics Program

We recommend continued interim funding of this program at the requested level, with Budget Bill and Supplemental Report language which would require the department to (a) improve program administration and (b) study clinics' financial status.

The budget requests $1,335,793 to continue the clinics operating costs grant program in 1981–82, including $1.3 million for local assistance and $35,793 for one administrative position. The amount requested for local assistance is the same as that authorized for 1980–81 by Chapter 1186. We recommend that the Legislature continue to fund this program at the requested level, because the existence of these clinics benefits the state. Many are in areas which lack other medical resources or serve poor or minority populations which are not well-served by private providers.

We cannot recommend that this program be established on an ongoing basis at this time, however, because (a) funding under this program was intended to be interim funding pending determination of clinic needs, (b) the department has not adequately documented the need for or analyzed the alternatives to a clinic operating costs program, and (c) implementation of clinic operating costs program should be improved before we are able to recommend ongoing Budget Act funding.

1. ***Funding provided under this program was intended to be interim funding pending determination of the need for the program.*** During discussions of the bill, clinics indicated that financial problems resulting from passage of Proposition 13 threatened continuation of services to poor and Medi-Cal patients. Members of the legislature and their staff frequently expressed frustration at the lack of data on the specific causes of clinic financial problems. However, the bill was enacted to prevent further deterioration of services. Funding was provided on an interim basis pending collection of data on clinic needs. For example, language in the act indicates that the funds were to be used "for the purpose of . . . stabilizing the health care operations of community and free clinics." The act specifies that the department shall consider the "applicant's needs for funds to continue its current level of operation" in the allocation of grant funds. Language in the capital expenditures portion of the act relating to the allocation of funds requires "policies and priorities designed to prevent cessation of operation or reduction of services of existing eligible clinics."

2. ***The department has not adequately documented the need to provide operating subsidies to these clinics, nor has it analyzed the alternatives to such a program.*** Since the enactment of Chapter 1186, the department has not compiled any data which documents or analyzes the causes of the financial problems that some clinics have experienced. The department acknowledges this in its budget change proposal. The department has not analyzed (a) the funding sources of clinics, (b) the number of clinics which are located in "underserved" areas or serve underserved populations, (c) the costs and types of clinic services, and (d) the efficiency of clinic management. This type of analysis should be performed before an ongoing clinic funding program is established. It would enable evaluation of the alternatives to state-financed operating subsidies. For example, if clinic management efficiency is to blame for financial problems, improving clinic man-

agement would be more effective than operating subsidies in stabilizing the operations of these clinics.

The need for on-going clinic operating subsidies should also be examined in light of the additional support already provided to free and community clinics under the Medi-Cal program. Maximum reimbursements for primary care services provided by clinics are 19 percent higher than reimbursements for similar services provided by private physicians. The Office of Family Planning also reimburses its contractors, all of which are clinics, at rates which are higher than Medi-Cal rates to private physicians. The rationale for the rate differential is that (a) clinics provide comprehensive information and education services to supplement basic medical services, (b) clinics need additional funds because they are committed to serving non-Medi-Cal eligible poor clients, utilizing a sliding fee schedule based on income. Although we understand that a study of clinic costs is currently underway, these assumptions have never been verified by the department.

3. ***Implementation of this type of program must be improved before we could recommend expansion of clinic operating grants programs.***

Other clinics programs which currently receive Budget Act funds for operating expenses include (a) rural health ($3,411,452 proposed 1981–82 expenditures), (b) farmworker health ($914,203 proposed for 1981–82), and (c) Indian health ($2,638,570 proposed for 1981–82).

In our review of the rural health program, we identified deficiencies in the department's management of the program including: (a) lack of uniform policies with respect to project charges and collections; (b) inadequate site review and follow-up procedures; (c) lack of a program for enforcing compliance with contract performance objectives; and (d) inconsistent enforcement of accounting and reporting requirements. We found that significant improvements in the projects' financial performance may be possible through improvements in collections and staff utilization. The department, however, has not analyzed the rural health projects' capacity for self-sufficiency or evaluated its own policies with respect to their effect on the projects' ability to achieve self-sufficiency.

Our preliminary review of how Chapter 1186 has been implemented turned up the following deficiencies:

- The department has not developed uniform policies with respect to patient charges and collection procedures for clinic grantees. The department does not require grantees to report revenues from their other funding sources or data on patient care activities.
- Although the Request for Proposal required applicants to discuss their long-range plans for financial stability, the department awarded grants to clinics which (a) did not supply any specific details regarding their plans and (b) did not document the reasons for their current financial problems. The department did not verify that clinics which were awarded funds were, in fact, experiencing financial problems.
- The department has not provided adequate direction to technical assistance contractors. With some exceptions, contract objectives are vague and appear to serve the needs of the contractor rather than the needs of the state.

Recommendation. We recommend the following Budget Bill language which would assure stronger control of the program by the department:

"Provided, that the Controller shall not issue warrants to contractors under the Chapter 1186, Statutes of 1979, clinics program unless the director of Health Services certifies that the contractor has (a) documented in detail the reasons for its financial problems, and (b) implemented a plan for assuring financial stability after program funding is withdrawn."

We recommend adoption of the following supplemental report language:

DEPARTMENT OF HEALTH SERVICES—Continued

"The Department of Health Services shall report by December 15, 1981, to the fiscal committees and the Joint Legislative Budget Committee on the financial status of free and community clinics. The report shall include but not be limited to a description and analysis of: (a) clinic services and costs per unit of service, (b) clinic staffing patterns, (c) clinic funding sources including in-kind contributions, (d) population groups served by clinics, and (e) clinic financial management. The report shall evaluate the appropriateness of differentials between Medi-Cal physician rates and clinic reimbursement rates provided by the Medi-Cal and family planning programs."

We recommend approval of the department's request for one position to administer this program.

Family Planning

We recommend deletion of $1.85 million from the General Fund (Item 426-111-001) because the department does not need additional funds to continue the current level of information and education projects through 1981–82.

The Office of Family Planning contracts with local agencies to provide contraceptive, sterilization, information and education services. The budget proposes an expenditure of $40,155,237 (all funds), including $1,146,465 for department support (excluding administrative overhead) and $39,008,772 for local assistance. The proposed level of expenditures is $108,246, or 0.3 percent, less than estimated current year expenditures. The budget proposes an increase in support of $125,244, or 12.3 percent. The budget proposes a reduction of $233,490, or 0.6 percent, in local assistance funding.

The minor reduction in local assistance funding reflects the transfer of funds to the support item to fund staff increases related to workload. The budget does not include any cost of living adjustments for local service providers.

The budget proposes to continue a $7.1 million legislative augmentation approved in the 1980 Budget Act. Table 8 displays how these funds were used.

Table 8
1980–81 Family Planning Expenditures
(in thousands)

Types of Services	*Proposed 1980–81*	*Legislative Augmentation*	*Estimated 1980–81*
Contraceptive and sterilization services	$29,306.8	$3,520.0	$32,826.8
Information and education	2,745.7	3,556.6	6,302.3
Media campaign		(1,000.0)	
Parent education		(750.0)	
Peer counseling		(750.0)	
Teacher training		(1,000.0)	
Social services pilot		(56.6)	
Miscellaneous	113.1	—	113.1
	$32,165.6	$7,076.6	$39,242.2

Due to start-up delays, the contracts for the media campaign had not been awarded as of mid-January. These contracts will be written for a sixteen month period through the 1981–82 fiscal year, with most of the actual work being performed in the budget year. Similarly, $850,000 of the $1 million in funds for teacher training had not yet been committed at the time this analysis was prepared. The department is working with the Chancellor's Office of the California State University and Colleges to develop a Request for Proposal, and anticipates awarding contracts effective through the next fiscal year. The 1980–81 funds will be available

for expenditure in 1981–82.

We recommend deletion of $1.85 million because, due to delays in contract approvals and the delay in program development, the department will have adequate funds to continue these programs through 1981–82 at the current year level of service.

Maternal and Child Health

The Maternal and Child Health Branch has the general mission of improving the health status of women and children. The budget proposes expenditures of $4,751,535 for department support, excluding administrative overhead. This is an increase of $273,828, or 6.1 percent, over estimated current year expenditures. The budget proposes expenditures of $12,102,197 for local assistance, a decrease of $2,484,339, or 17 percent, below estimated current year expenditures. This excludes the Supplemental Food Program for Women, Infants and Children which is budgeted in the Special Projects item. The decrease in local assistance funding is due to termination of (a) the Oakland perinatal project, (b) the Huntington's disease research program, and (c) the high risk infant followup program.

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 1981–82, the branch intends to utilize the federal allocation of approximately $11.0 million as follows:

1. Department support ($2.0 million)
2. Allotments for county programs ($1.5 million).
3. Federally-mandated demonstration projects in maternal and infant care, intensive infant care, family planning, dental care, and children and youth, ($4.3 million).
4. Innovative local projects on a three-year funding cycle ($3.2 million), including the obstetrical access pilot project, which also receives funds from the Medi-Cal program.

Programs receiving General Fund support include:

1. ***Genetic disease prevention.*** The department contracts with comprehensive genetics centers to provide prenatal diagnosis and counseling services. The department expanded its existing newborn screening program in October 1980 to include two additional diseases, hypothyroidism and galactosemia, which cause mental retardation if untreated. The department also contracts with sickle cell programs to provide screening and education.

2. ***Maternal and infant health.*** The department contracts with regional perinatal centers to coordinate specialty services for high-risk mothers and infants. The department also contracts with two dispatch centers which monitor bed availability in neonatal intensive care units and link up high risk mothers and infants with available beds as required.

High Risk Infant Followup Pilot Project

Under the High Risk Infant program, the department contracts with regional centers for the developmentally disabled to provide followup to infants in neonatal intensive care units which have been identified as having a high risk of becoming developmentally disabled. The budget does not propose continuation of the project.

The project was transferred to the department from the Department of Developmental Services, effective October 1, 1980, pursuant to the 1980 Budget Act. The Legislature also adopted language in the Supplemental Report of the 1980 Budget Act requiring the Department of Developmental Services to evaluate and report on this pilot project by January 1, 1981. As of mid-January, we have not received the report, and are unable to evaluate whether this program should be continued.

DEPARTMENT OF HEALTH SERVICES—Continued

California Children's Services

The California Children's Services (CCS) program provides medical care and related services to children with physical handicaps 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 in 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 a portion or all of the costs of services provided to their children. The program implemented a revised system of financial eligibility and charges to families in July 1980. Under this system, families with incomes of $100,000 or under are eligible for services. A family's maximum payment for services provided by CCS equals 200 percent of the family's tax liability in the prior year. Repayment requirements are not applied for diagnostic services or 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 dterminations or collect any fees.

The budget proposes $34,791,050 from the General Fund for assistance to local CCS programs, an increase of $2,177,177, or 6.7 percent, above estimated current year expenditures. Expenditures for department support are proposed to be $2,477,498, or 4.8 percent, above estimated current year expenditures. Table 9 shows the actual, estimated and proposed budget year expenditures for the CCS program.

Table 9
California Children's Services
Expenditures by Program and Source of Funds

	Actual 1979–80	*Estimated 1980–81*	*Proposed 1981–82*	*Change* Amount	*Change* Percent
Diagnosis	$1,440,741	$1,639,881	$1,703,687	$63,806	3.9%
Treatment	30,101,175	34,277,391	36,523,016	2,245,625	6.6
Therapy	11,062,869	12,599,913	13,090,161	490,248	3.9
County Administration	1,746,796	1,989,204	2,066,602	77,398	3.9
Other Local Assistance	61,468	67,000	67,000	–	–
Subtotals	$44,413,049	$50,573,389	$53,450,466	$2,877,077	5.7%
State Administration	2,146,718	2,364,994	2,477,498	112,504	4.8
Totals	$46,559,767	$52,938,383	$55,927,964	$2,989,581	5.6%
General Fund					
CCS Local Assistance	*$28,092,153*	*$32,613,873*	*$34,107,102*		
Department Support	*2,146,718*	*2,364,994*	*2,477,498*		
Cost of Living Adjustment	–	–	*683,948*		
County Funds	*10,651,196*	*12,129,316*	*12,829,216*		
Family Repayment	*951,200*	*1,125,500*	*1,125,500*		
Federal Title V	*4,718,500*	*4,704,700*	*4,704,700*		

California Children's Services Cost Increase

The diagnosis, treatment and therapy costs are budgeted at $51,316,864 (including county funds), which is an increase of 5.8 percent over estimated current year expenditures. The increase reflects:

1. An average caseload increase of 5 percent based on past trends.

2. A cost of living adjustment of 4.75 percent for services provided by hospitals. No cost of living adjustments are included for other providers.

Federal Funds for CCS Department Support

We recommend a reduction of $520,274 from the General Fund to reflect availability of federal funds for CCS department support (Item 426-001-001).

The CCS, Maternal and Child Health, Child Health and Disability Prevention, and Medi-Cal programs concluded an agreement, effective July 1, 1979, which commits them to work more closely together to provide services. The agreement has been approved by the federal Health Care Financing Administration (which monitors Medi-Cal), and makes significantly more federal Medi-Cal funds available for state and county administrative costs.

In our *Analysis of the 1980 Budget Bill,* we commented that the department had not determined exactly how the agreement would be implemented. As of mid-January, one year later, the department still has not resolved many details of the agreement, and the Medi-Cal program has not released any federal funds to the CCS program. According to departmental representatives, this delay is due to the CCS program's failure to develop adequate recordkeeping, referral and followup procedures. When adequate procedures are developed and approved, federal funds will be available, retroactive to July 1, 1979.

The department has included federal funds in its projections of funds available for county administrative costs (these funds are included in the Medi-Cal county administration item) but has not included federal funds in its budget for departmental support. We recommend that the General Fund support appropriation be reduced by $520,274 and that a corresponding increase in federal funds be made. This figure is based on (a) the CCS support budget, which is $2,477,498, (b) the assumption that the average matching will be 70 percent federal funds, based on experience of the Child Health and Disability Prevention program, and (c) the projection that the Medi-Cal eligible caseload will be 30 percent of total caseload.

The department should be prepared to comment during budget hearings on the reasons for the delay in implementing the agreement.

Reduction of Services in the Current Year

We recommend that the department prepare, as part of the May expenditure revisions, a forecast of CCS expenditures for services that takes into account the service reductions implemented in January 1981. We further recommend adoption of supplemental report language which requests the department to develop regulations to govern the CCS program. (Item 426-111-001).

In December 1980, the department notified county CCS programs that certain medical conditions and services would not be covered for funding, effective January 15, 1981, "due to unavoidable budgetary constraints." These conditions and services are:

- Orthodontia, excluding those cases with related congenital anomalies such as cleft palate.
- Strabismus (crossed eyes).
- Ear and mastoid, except for surgical repair of the tympanic membrane or middle ear.
- Dental care for children with CCS eligible conditions (except for hemophilia).
- Benign neoplasms.
- Plastic surgery, except for burn cases and severe congenital abnormalities such as cleft lip and/or palate.
- Epilespy.
- Maintenance/transportation.

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- Speech therapy.
- Psychotherapy and psycho-social services.
- Van lifts.
- Non-oral communication devices.

Our concerns with this action are twofold:

1. The department took this action without informing the Legislature of the need for additional funds in the program. No explanation or detailed analysis of the reasons for the action have been made available for legislative or public review.

Normally, new regulations are subject to review through the public hearing process. The CCS program, however, operates through "program letters" which have the same effect as regulations, but are not subject to public review.

2. The department has not considered the effect of the service cutback in preparing its 1981–82 budget. The department estimates savings of $2 million in the current year from eliminating these conditions and services for six months. Full year savings could be $4 million. Th exact reduction from 1981–82 budgeted levels will vary between $2 and $4 million, depending on the extent to which the cutbacks are really needed in the current year to hold expenditures to 1980–81 available funds. Conversely, reinstituting these services could cost up to $2 million more than the amount which is included in the budget.

Accordingly, we recommend that the Legislature (a) curtail the department's administrative flexibility with respect to the CCS program, and (b) instruct the department to prepare, as part of its May expenditure estimates, a detailed forecast of program expenditures which adequately accounts for the reduction in services. To accomplish the first of these recommendations, we recommend adoption of the following supplemental report language:

"The department is directed to develop and implement regulations governing operation of the California Children's Services Program."

Genetically Handicapped Person's Program

The Genetically Handicapped Person's Program (GHPP) provides medical care and related services to adults with certain genetic diseases. As in the California Children's Services program, families must repay the state for services provided to clients. The program utilizes the same financial eligibility and family repayment requirements that apply to CCS.

The budget proposes expenditures of $4,494,406, which is $175,671, or 3.8 percent, below budgeted 1980–81 expenditures. The reduction is due to revisions in projected cost per case and caseload. The budget requests $168,196 for a 4.75 cost

Table 10
Genetically Handicapped Person's Program
Proposed 1981–82 Caseload and Costs

Condition	*Caseload*	*Cost per Case*[a]	*Total Costs*
Hemophilia	710	$4,014	$2,849,940
Cystic Fibrosis	180	3,387	609,660
Sickle Cell	485	426	206,610
Huntington's disease and related conditions	250	3,000	750,000
Totals	1,625	$2,718	$4,416,210

[a] Excludes 4.75 percent cost of living adjustment for inpatient and other services provided through a cost-based reimbursement method. These costs are offset to a limited degree by family repayments.

of living adjustment for hospital costs and other services which utilize a cost-based method of reimbursement. These services account for approximately 80 percent of GHPP costs. No cost of living adjustment is included for other types of services.

Table 10 displays the types of conditions and, for each condition, the projected caseload, cost per case, and gross program costs excluding cost of living adjustments.

Repayment Funds Not Reflected in the Budget

We recommend adoption of Budget Bill language requiring the department to offset unbudgeted CCS and GHPP collections of family repayments against the General Fund appropriations for these programs (Item 426-111-001).

The CCS program and GHPP both implemented a revised system of financial eligibility and charges to families in July 1980. Under this system, families with incomes of $100,000 or less are eligible for services. A family's maximum payment for services equals 200 percent of the family's state tax liability in the prior year.

Because the repayment system was implemented only recently, the department does not have good data on what repayments will be under the new system. The CCS budget reflects repayments of approximately $1.1 million, which is the amount that would have been collected under the old repayment system. The GHPP budget assumes that family repayments will be $100,000.

We recommend that any repayment collections in excess of the amounts reflected in the budget be utilized to offset General Fund expenditures for these programs. Accordingly, we recommend the following Budget Act language:

"Provided further, that collections of family repayments (a) by CCS in excess of $1,125,500, and (b) by GHPP in excess of $100,000 shall be utilized to offset the General Fund appropriation to those programs."

E. RURAL HEALTH

The budget proposes $12,179,891 (all funds) for support of the Rural Health Division, excluding administrative overhead. This is an increase of $87,079, or 0.7 percent, above estimated current year expenditures. Department support is proposed in the amount of $4,380,604, which is $140,197, or 3.3 percent above estimated current year expenditures. Local assistance is proposed in the amount of $7,799,287, a decrease of $53,118, or 0.7 percent, from estimated current year expenditures.

The budget proposes (a) to permanently establish two positions in the Indian Health program which were approved on a limited term basis in 1980–81 and (b) to reestablish seven positions in the contract counties program which were deleted in 1979–80 in order to provide contract counties the option of receiving funds rather than the services of state staff. These positions were administratively established in the current year.

Technical Assistance for Contract Counties

We recommend deletion of $435,062 from the General Fund for technical assistance for contract counties (Item 426-111-001) because adequate justification for these funds has not been submitted.

The department provides local public health services directly in 15 rural counties through the contract counties program. 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 began to operate its own program during the current year.

The budget proposes $435,062 to continue a program established in the current

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year to assist contract counties. In its 1980 budget proposal, the department indicated it would utilize the requested funds to provide through consultant contracts (1) training to improve the skills of public health nurses ($214,362), (2) sanitarian training ($10,900), (3) technical assistance, workshops and training in program planning and management ($79,000), and (4) coordination and administration of the technical assistance program ($130,800). Last year we expressed the following reservations about the proposal: (1) no justification was provided for the proposed level of nurse training (approximately $4,000 per nurse), (2) the proposal did not address apparent management problems in the contract counties program, and (3) the proposal did not account for existing department resources.

We recommend that funds proposed for continuing this program be deleted, for the following reasons:

1. ***The department has no plans for utilizing $77,260 out of the $435,062 which would be available.*** The department has encumbered $357,802 in the current year for contractual services, and proposes continuation of these services at the same level. It has no plans for spending the remaining $77,260 in either the current year or the budget year.

2. ***The department does not have a detailed expenditure plan for the remainder of the proposed funds.*** The department indicates that it intends to change the focus of the training and technical assistance. Specifically, (a) for health officers, the focus will be day-to-day administrative management instead of "general planning and health needs", and (b) for nurses, the focus will be on administration and epidemiology instead of physical assessment. However, no detailed expenditure plan has been provided. We are unable to determine exactly how much of each type of training will be provided and how the total projected costs were calculated.

Exactly what the funds are being used for in the current year is also unclear. The department's contract with the Center for Health Training is not specific about the types of training which would be provided. In fact, a portion of the current year effort consists of performing a "needs assessment" to determine what types of training are needed. Over half of the contractual amount is set aside for unspecified consultants and subcontractors.

3. ***The high costs of the program are not justified.*** In its 1980 budget proposal, the department indicated that the costs for training nurses in physical assessment are high ($4,000 per nurse, total projected costs of $214,362) due to the need for one-on-one on-site clinical training and medical preceptorship. The 1981–82 proposal does not include this type of training for nurses, but the department has not reduced its funding request accordingly.

4. ***The proposal does not address what appear to be the key problems in the contract counties program.*** According to the department, the problems of the contract counties include part-time untrained health officers who (a) are "sometimes antagonistic" to public health concerns, (b) are in a difficult position relative to state-employed nursing and sanitarian personnel, and (c) have inadequate managerial and analytical support. The proposal addresses the managerial and analytical needs but does not address the key problems which appear to be part-time, anagonistic health officers and the difficult management position of health officers relative to state employees. These problems are not solved with training and technical assistance.

5. ***The proposal does not account for existing department resources.*** Potential sources of assistance that could be used for this type of technical assistance are: (a) the local environmental programs section and the hazardous materials management section, which could provide inservice training for sanitarians, and (b) the Office of County Health Services, which already provides assistance in planning

and budgeting under AB 8. In addition, the Rural Health Division has staff which manages the contract counties program and which should be providing training and technical assistance.

In summary, we recommend deletion of this program due to lack of adequate justification.

F. SPECIAL PROJECTS

We recommend approval:

The special projects budget item contains 177 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 $140,850,082, which consists of $134,255,310 in federal funds and $6,594,772 in reimbursements from other state agencies. This is an increase of $31,600,209, or 28.9 percent, over estimated current year expenditures. Budget year expenditures for special projects could be significantly less than anticipated if federal funding for the projects is reduced. The expenditure level proposed for the budget year is $81,825,509, or 138.6 percent, higher than 1979–80 expenditures.

The budget proposes 796.5 positions for support of the projects (660.7 federal and 135.8 state). This is an increase of 196.7 positions, or 32.8 percent, over the estimated current year levels of 599.8 positions (504.5 federal and 95.3 state.)

The budget increases of $31,600,209 and 196.7 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 $91,860,160, or 65.2 percent, of the special project funds in 1980–81. It accounts for $15,310,027, or 48.4 percent, of the $31.6 million increase in the special projects item. Table 11 provides data on the rapid increases in the WIC budget.

Table 11
Women, Infants, and Children Program

	Actual 1979–80	*Estimated 1980–81*	*Proposed 1981–82*
Food Vouchers	$37,817,135	$61,775,957	$74,131,149
Personal Services	606,406	727,687	873,224
Other [a]	8,437,841	14,046,489	16,855,787
Totals	$46,861,382	$76,550,133	$91,860,160

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

2. ***New Projects.*** Of the 177 projects included in the proposed budget, 61 are new and will cost $9.4 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.

G. LEGISLATIVE MANDATES

We recommend reduction of $78,279 from the General Fund to correct overbudgeting (Item 426-121-001).

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. This amount is equal to estimated current year expendi-

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tures, and is $91,122, or 102.5 percent, greater than actual 1979–80 expenditures. These 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 current and 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

Current year and budget year expenditures were estimated based on 1979–80 claims which were submitted to the Controller. The Controller later audited these claims and actually paid only $88,878. We estimate actual budget year expenditures will be $101,721, based on increases in local costs of nine percent in 1980–81 and five percent in 1981–82. Accordingly, we recommend a reduction of $78,279 from the General Fund.

2. CALIFORNIA MEDICAL ASSISTANCE PROGRAM (Medi-Cal)

A. SUMMARY

The budget proposes a total General Fund expenditure of $2,756,339,407 for all Medi-Cal program activities in 1981–82. This is an increase of $185,836,938, or 7.2 percent, above estimated current year expenditures. Table 12 shows that total state and federal Medi-Cal expenditures are estimated at $5,057,172,265 in 1981–82, which is an increase of $449,400,104, or 9.7 percent, above estimated current year expenditures. Of the total, 5.9 percent would be spent for program administration and 94.1 percent would be spent for health care services.

Table 12
Medi-Cal Program Expenditures
1981–82

	General Fund	*Federal Funds*	*Total Funds*
Program Administration [a]	$159,509,606	$138,362,128	$297,871,734
Health Care Services	2,596,829,801	2,162,470,730	4,759,300,531
Total	$2,756,339,407	$2,300,832,858	$5,057,172,265

[a] Includes state administration, county administration and fiscal intermediary services.

Medi-Cal Eligibility

Medi-Cal is a joint federal-state health care program which pays for the medical expenses of approximately three million Californians. Individuals who receive cash grant welfare assistance are automatically eligible for Medi-Cal services. These individuals include cash grant recipients under the Aid to Families with Dependent Children program and Supplemental Security Income/State Supplementary Payment (SSI/SSP) programs. AFDC recipients are children and related adults. Their eligibility for welfare is determined by county welfare departments. SSI/SSP recipients are aged, blind and disabled persons. Their eligibility is determined by the federal government. In total approximately 1,500,000 AFDC and 720,000 SSI/SSP recipients are eligible for Medi-Cal in any one month.

Under the Medi-Cal program, two other groups are eligible for health care services—the medically needy (MN) and the medically indigent (MI). These eligibility categories include approximately 375,000 and 400,000 persons respec-

tively. Eligibility for the MN and MI categories is determined by comparing an individual or family's medical expenses with the income available to meet those expenses. The program determines how much an eligible individual could spend for medical expenses by deducting from the individual's income an amount for living expenses. If the amount that can be devoted to medical expenses is not sufficient to defray the costs, the Medi-Cal program pays the difference.

Table 13 shows the amounts which MI and MI applicants are currently allowed to retain for living expenses.

Table 13
Medi-Cal Program Monthly Maintenance Needs Standards for Medically Needy and Medically Indigent Recipients [a]

	Amount Allowable for Living Expenses		
Family Size	*Aged and Disabled*	*Blind*	*All Other*
1	$420	$471	$336
2	773	905	517
3	–	–	633
4	–	–	758
5	–	–	858
6	–	–	967
7	–	–	1,058
8	–	–	1,150
9	–	–	1,250
10	–	–	1,342

[a] Not eligible for cash grant welfare assistance.

Number of Eligible Persons

Table 14 shows the number of persons eligible for the Medi-Cal program in each year since 1977–78. The budget estimates that during the current year, average monthly eligibles will increase by 176,611, or 6.2 percent, above the average for 1979–80. This is a substantial increase relative to the prior two years when there was either no growth in the number of eligibles or an actual decline. The average monthly number of eligibles in 1981–82 is projected to increase to 3,093,400, which is 72,900, or 2.4 percent, above the estimate for 1980–81.

Table 14
Average Monthly Number of Persons Eligible for Medi-Cal

Recipient Categories	*Actual 1977–78*	*Actual 1978–79*	*Actual 1979–80*	*Estimated 1980–81*	*Percent Change 1980–81 over 1979–80*	*Proposed 1981–82*	*Percent Change 1981–82 over 1980–81*
1. Cash Grant							
a. Aged	328,207	324,548	318,213	321,000	.9%	320,100	–.3%
b. Blind	12,850	12,901	16,817	18,000	7.0	18,300	1.7
c. Disabled	348,096	360,712	368,980	380,100	3.0	389,000	2.3
d. AFDC	1,473,148	1,427,548	1,418,425	1,523,800	7.4	1,560,000	2.4
2. Medically Needy	325,242	326,321	339,505	375,400	10.6	397,500	5.9
3. Medically Indigent							
a. Children	129,026	116,495	109,055	123,100	12.9	124,900	1.5
b. Adults	287,596	259,166	247,051	279,100	13.0	283,600	1.6
4. Other (Refugees, etc.)	23,750	15,078	25,843	–	–	–	–
Total	2,927,915	2,842,769	2,843,889	3,020,500	–	3,093,400	–
Change from prior year	4.3%	–2.9%	–	–	6.2%	–	2.4%

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MI Adult Recipients

The MI Adult population is not eligible for federal assistance under the program. Because the Federal government pays no part of the cost of medical care for the MI Adult population, the state must defray the full cost of the services provided.

Table 15 shows that approximately $500 million from the General Fund was expended in 1979–80 for MI Adult medical services. Approximately 65 percent of the funds were expended for hospital inpatient care. About one-third of the inpatient care (22 percent) was provided in county hospitals.

Table 15
Medi-Cal Program Expenditures
MI Adult Category

	Estimated 1979–80 Expenditures	*Distribution of Total Expenditures*	*Average Monthly Patients*
County Hospitals			
Outpatient	$2,189,000	.4'	3,300
Inpatient	107,953,000	21.6	3,300
Community Hospitals			
Outpatient	22,486,000	4.5	26,100
Inpatient	215,829,000	43.0	7,700
Physicians	92,235,000	18.5	81,300
Other Medical	18,662,000	3.7	30,700
Drugs	15,183,000	3.0	62,000
Nursing Homes and ICF	5,510,000	1.1	500
Home Health	460,000	.1	300
Medical Transportation	2,950,000	.6	2,900
Other Services	2,223,000	.4	700
State Hospitals	6,990,000	1.8	NA
Dental	8,824,000	1.8	NA
	$501,494,00	100.0%	

Scope of Benefits

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

Table 16 lists the optional services currently available in the program. Because some optional services are a low cost alternative to a more expensive non-optional service, eliminating these services would not necessarily result in net savings to the program. For example, certain patients would require hospitalization if they could not afford to purchase required drugs within present incomes. Other optional services result in savings to the General Fund. For example, Medi-Cal reimbursement to state hospitals permit the state to transfer approximately $111 million of state hospital operating cost to the fedral government.

Table 16
Optional Medi-Cal Services
1981–82 Fiscal Year

	Total Funds	*General Fund*
Drugs	$255,014,000	$133,216,000
Developmentally Disabled— Intermediate Care-State Hospitals	185,911,000	93,068,000
Dental (Adults)	90,852,000	52,480,000
Intermediate Care Facilities— Other	33,999,000	17,090,000
Prosthetics/Orthotics/Durable Medical Equipment	20,220,000	11,657,000
Optometry (Eye Appliance)	17,781,000	9,773,000
Podiatrists	14,236,000	7,825,000
PHPs (Optional Services)	12,875,000	6,850,000
Multipurpose Senior Services Project	12,060,000	6,030,000
Adult Day Health Care	10,896,000	5,609,000
Psychologists	9,343,000	5,136,000
Hearing aids	7,409,000	4,470,000
Redwood (Optional Services)	4,677,000	2,344,000
Hemodialysis Centers	4,067,000	2,236,000
Opticians	3,369,000	1,852,000
Speech Therapists/Audiologists	2,007,000	1,103,000
Chiropractors	1,984,000	1,091,000
Physical Therapists	1,042,000	573,000
Blood Banks	831,000	501,000
Independent Rehabilitation Centers	233,000	128,000
Occupational Therapists	129,000	71,000
Nurse Anesthetists	317,000	174,000
Organized Outpatient Clinics and All Others	84,525,000	46,459,000
Total	$775,570,000	$410,179,000

Notes: In additional to the above services, at least part of the following services may be considered optional: Short-Doyle Medi-Cal, transportation, psychiatric hospitalization for under 21 years old and over 64 years old, and other service providers.

Medi-Cal Local Assistance

Item 426-101-001 of the budget proposes $2,676,029,948 from the General Fund for Medi-Cal program local assistance expenditures. This is an increase of $188,402,-386 or 7.6 percent, above estimated current year expenditures. (These amounts exclude Short Doyle Medi-Cal expenditures, which are in Item 444-101-001.) Total local assistance expenditures of $4,927,577,209 (all funds) are proposed for the Medi-Cal program in 1981–82. This is an increase of $586,266,267, or 13.5 percent over estimated current year expenditures. Ninety-seven percent of total Medi-Cal program expenditures from the General Fund are appropriated through the Medi-Cal local assistance item of the Budget Bill. The Department of Health Services is responsible for the management of these funds. Table 17 shows the proposed appropriation of state and federal funds for the local assistance portion of the Medi-Cal program.

Table 17
1981–82 Medi-Cal Local Assistance
Item 426-101-001

	General Funds	*Federal Funds*[a]	*Total Expenditures*
(a) Medi-Cal County Eligibility Determinations	$101,438,967	$49,803,413	$151,424,380
(b) Health Care	2,552,754,720	2,166,621,686	4,719,376,406
(c) Child Health Disability Prevention	7,878,161	8,406,562	16,284,723
(d) Medi-Cal Claims Processing	13,958,100	26,715,600	40,673,700
	$2,676,029,948	$2,251,547,261	$4,927,577,209

[a] Federal funds are appropriated in Item 426-101-890.

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Transferability of Medi-Cal Funds

We recommend that the Legislature adopt Budget Bill language which would prohibit the transferability of funds between the subitems of the Medi-Cal local assistance item.

The Budget Bill (Item 426-101-001), as introduced, would give the administration the flexibility to use funds appropriated for Medi-Cal health care services, county eligibility determinations, fiscal intermediary contracts and the Child Health Disability Prevention (CHDP) program interchangeably. For example, funds from the $2,552,754,720 appropriated for health care services could instead be used to augment the amounts budgeted for county administration, fiscal intermediary contracts, or the CHDP program. Prior Budget Acts have not allowed this flexibility.

Such flexibility would remove the established fiscal limits that now apply to eligibility determination activities, fiscal intermediary contracts, and the CHDP program. Because intra-item transferability would reduce the Legislature's ability to control funding for the fiscal intermediary contract, county Medi-Cal eligibility determination activities, and CHDP program activities, we recommend the following Budget Bill language be adopted by the Legislature.

"Provided further that funds appropriated in Item 426-101-001 shall not be transferable between subitems (a), (b), (c) and (d)."

B. MEDI-CAL COUNTY ELIGIBILITY DETERMINATIONS

The budget proposes $101,438,967 from the General Fund for the state share of county-operated Medi-Cal eligibility determination costs. This is $403,895, or 0.4 percent, below estimated current year expenditures.

There are four major reasons for the decrease:

a. The proposed budget contains no funds for county employees' salary and benefit increases or for inflation in operating expenses. For comparative purposes, it should be noted the counties granted an estimated 9.9 percent increase in salary and benefit increases and incurred an 11.1 percent increase in operating expenses during the current year. The cost of these increases is estimated at $12,137,358 ($8,170,083 General Fund).

b. The budget assumes that counties with identified productivity problems can achieve a $2,845,543 ($1,944,539 General Fund) savings as a result of additional operating improvements.

c. The budget assumes Los Angeles county hospitals can reduce the cost of processing a Medi-Cal application from $253 in the current year to $211 in 1981–82. This reduces the amount which would be available for Los Angeles County hospitals from $7,630,000 to $6,663,802, a reduction of $966,198 ($660,203 General Fund), or 12.7 percent.

d. The budget assumes that the MEDS data processing project will become operational in 31 counties, including Los Angeles. If this assumption is correct the department anticipates a General Fund savings in county operating costs of $1,003,079. This savings would result principally because the manual processing of temporary Medi-Cal cards would no longer be necessary.

It should be noted that the budget currently assumes no staffing increase in the Los Angeles County quality control project. However, the cost of a proposed expansion is $1,359,281 ($928,797 General Fund). The 1980 Budget Act requires the

department to prepare an official Budget Change Proposal in support of the expansion if the funding is requested.

Table 18 compares estimated expenditures during the current and budget years for the various county Medi-Cal activities and shows, in percentage terms, the increase or decrease for each.

Table 18
Comparison of 1980–81 Estimated to 1981–82 Proposed Operating Expenditures for Medi-Cal County Administration

	Estimated 1980–81	*Proposed 1981–82*	*Percent (Decrease) Increase*
1. County Welfare Department Eligibility Determination Activities			
A. Workload	$113,747,086	$132,510,605	16.5%
B. Cost-of-Living Adjustment	12,137,358	–	NA
C. Unallocated Funds	9,732,480	6,877,937	29.3
Total	$135,616,924	$139,388,542	2.7%
2. Los Angeles County Hospitals–Eligibility Determinations	7,630,000	6,663,802	−12.7
3. Los Angeles County Quality Control Project	900,631	900,631	–
4. County Prepaid Health Plan Enrollment Activities	287,403	2,131,682	642.0
5. Training for Eligibility Workers	919,547	938,722	2.1
6. California Children's Services and Case Management	1,465,629	1,465,629	–
7. Eligibility Determinations for Prisoners (Chapter 90, Statutes of 1980)	147,792	155,152	5.0
8. MEDS Project	949,867	−657,780 [a]	NA
9. Increased Monitoring of Recipient's Assets	–	256,000	NA
10. 1980–81 One-Time Projects	5,159,921	–	–
Total Funds	$153,077,742	$151,242,380	−1.3%
General Fund	*$101,842,862*	*$101,438,967*	*−0.4%*
Federal Funds	*$51,234,880*	*$49,803,413*	*−3.0%*

[a] The budget assumes county welfare department operational savings resulting from the MEDS project in 1981–82.

1980–81 Deficit

The budget projects a $7,002,680 deficit in the Medi-Cal county administration item during the current year of which $3,982,434 would be charged to the General Fund. Table 19 lists the reasons for the anticipated deficit, and shows the estimated fiscal effect of each. The two major reasons for the deficit are unanticipated workload growth and passage of Chapter 511, Statutes of 1980, which made it necessary to recalculate recipient share-of-cost obligations. (Chapter 511 reduced SSI/SSP and AFDC welfare grant entitlements, effective January 1, 1981.) Share-of-cost obligations in the Medi-Cal program must be recalculated because they relate directly to welfare grant levels.

Cost of Living Adjustments

We recommend adoption of Budget Bill language to limit state reimbursements for county cost-of-living increases to not more than the percentage increase funded in the Budget Act. We further recommend adoption of Supplemental Report language to make such limitation permanent.

An important policy question which emanates from the current year deficit relates to county cost of living adjustments. In the 1980 Budget Act the Legislature appropriated an amount sufficient to provide a nine percent increase in salaries

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Table 19
Factors Impacting
Estimated Deficit in
Medi-Cal County Administration
1980–81

	Estimated Total Cost
1. Workload growth: Estimated applications workload increase of 7.7 percent	$2,716,594
2. Counties granted cost of living adjustments in excess of budget	451,284
3. Higher than anticipated average salaries	535,872
4. Shift of Medi-Cal training costs from AFDC to Medi-Cal program	919,574
5. One-time cost of recalculating share-of-cost obligations of 400,417 cases per Chapter 511	2,241,334
6. Recalculation of parents' financial responsibility for 18 to 21 year old children per Chapter 451, Statutes of 1979 and other one-time recalculations of fiscal obligations	455,714
7. Cost of determining Medi-Cal eligibility of certain city and county jail prisoners per Chapter 90, Statutes of 1980	147,792
8. L.A. County quality control project: Excess cost of living adjustments	6,831
Total	$7,002,680
General Fund	*$3,982,434*
Federal Funds	*3,020,246*

for county employees. The nine percent assumption used by the Legislature in putting the budget together is not binding on the counties, and some counties granted increases for 1980–81 which exceed nine percent.

The department has chosen to fund the excess increases, using state and federal funds. In effect, the department has allowed the counties, rather than the state, to determine the amount that the *state* provides for employee cost-of-living increases. The budget indicates that $451,284 ($303,249 General Fund) of the current year deficit of $7,002,680 ($3,982,434 General Fund) is related to excess cost-of-living increases. The counties' actions did not increase county costs because *there are no county funds involved in Medi-Cal county eligibility determination activities.*

The issue of cost-of-living increases is likely to become an even more important fiscal issue in 1981–82 if the Budget Act contains no funds or only limited funds for county employee salary and benefit increases. If, for example, the Legislature appropriated funds sufficient for a 4.75 percent increase in salaries and benefits, but counties granted their employees a 9.75 percent increase, the department would allocate sufficient funds to the counties to cover the full cost of the increase. This would result in excess cost in the Medi-Cal item of approximately $7,555,000 ($5,162,000 General Fund). (There would also be additional state and federal costs in the AFDC and Food Stamp county administration items.)

The issue facing the Legislature is: should the state pay for the cost of salary and benefit increases granted by the counties that exceed the percentage increase provided for by the Legislature? There is no explicit legislative policy on this matter at the present time.

We believe that the state should *not* be obligated to pay for the cost of salary increases in excess of the percentage increase provided for by the Legislature. We recommend the Legislature adopt this policy to (a) avoid possible cost overruns in the Medi-Cal county administration item related to excess cost of living increases and (b) to avoid different percentage increases for state and county employees. Accordingly, we recommend that Budget Bill language be added which

(a) makes clear that the state will not pay the cost of living increases above the percentage increase provided in the Budget Act regardless of whether funds are available in this item to fund such increases, and (b) which instructs the department to administer the 1981–82 cost control plan accordingly.

Our recommended Budget Bill language is:

"Provided further, that notwithstanding any provisions of law to the contrary, none of the funds appropriated by this item shall be used by counties to provide a cost of living increase to county welfare departments for personal, or nonpersonal services, which exceeds the percentage increase authorized by the Legislature in this item for the 1981–82 fiscal year.

"Provided further, that the 1981–82 county administration cost control plan shall contain a provision which specifies that the share of any county cost of living increase for personal and nonpersonal services which exceeds the percentage increase authorized by the Legislature shall be the sole fiscal responsibility of the county."

Even if the Legislature chooses not to fund excess cost of living increases in the budget year, any excess cost of living increases granted and paid for by the counties in 1981–82 would automatically be built into the following year's budget for Medi-Cal county administration. To prevent this from happening, we recommend that the department be instructed to operate the cost control plan in such a manner as to make the excess 1981–82 cost a permanent county fiscal obligation. The following supplemental report language would accomplish this.

"The department's 1982–83 request for funds for Medi-Cal county administration shall not include the cost of any 1981–82 salary, benefit or operating expense increase which exceeds the percentage increase authorized by the Budget Act of 1981. The department shall notify the counties that the state will not pay for excess cost of living increases and that the non federal share of increases granted in excess of the percentage approved by the Legislature shall be a permanent county fiscal obligation. The department shall maintain workpapers which indicate that excess 1981–82 county granted cost of living increases have been excluded from the 1982–83 funding requests made in December and in May. Finally, the 1981–82 and 1982–83 Medi-Cal County Administrative Cost Control Plan shall contain a provision which explicitly provides that the nonfederal share of any county authorized cost of living increase provided in 1981–82 which exceeds the percentage increase authorized in the Budget Act of 1981 shall be the permanent fiscal obligation of the county."

Los Angeles County Hospitals Eligibility Determination Costs

We recommend that the reimbursement level for Los Angeles County hospitals be limited to $162 per Medi-Cal application, which is 50 percent higher than the average reimbursement rate for the other five counties with in-hospital eligibility workers for a savings of $1,547,518 ($1,057,419 General Fund in Item 426-101-001 and $490,099 in federal funds in Item 426-101-890.)

Los Angeles County operates two Medi-Cal eligibility systems. One system is operated by the county welfare department; the other is operated by the county hospital system. Both submit administrative claims to the department for reimbursement. Five other counties place eligibility personnel in their hospitals in order to identify and enroll all Medi-Cal eligible patients. Counties have a compelling incentive to do so because by enrolling Medi-Cal eligible patients, they can avoid paying for a substantial amount of patient care from county funds.

In our analysis of the Governor's Budget for 1980–81, we indicated that the Medi-Cal program was being charged $399 per application processed by Los Angeles County hospitals, which was more than three times as large as the $120 per

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application charged by the next most expensive county hospital. We recommended that the Legislature provide for a reimbursement level for Los Angeles of $147 per application, which was 50 percent higher than the average reimbursement paid to the *five* other county hospitals. The administration proposed a reimbursement level that was 50 percent higher than the average rate paid *all six* hospital systems (including Los Angeles) plus a cost of living adjustment, which amounted to $253 per application. Although the Budget Act, as passed by the Legislature, contained funding for a reimbursment level of $279 per application, the Governor reduced this to $253 per application.

The budget for 1981–82 proposes that the reimbursement rate per application be set at a level 25 percent above the average county hospital rate paid all six hospital systems (including Los Angeles), or $211 per application. This results in a cost of $6,663,802 ($4,553,376 General Fund) during the budget year. If the budget proposal is approved, Los Angeles County would be reimbursed at a rate ($211 per application) that is nearly twice the average rate paid to the other five systems (estimated at $108 per application.) We can find no analytical basis for such a large differential. Accordingly, we again recommend that the reimbursement level be limited 150 percent of the average reimbursement rate paid to the other five systems, which is $162. This would result in a savings of $1,547,518 ($1,507,419 General Fund). We continue to believe that if Los Angeles is to be paid at a rate above the average, it should be *excluded* from the computation of the average because it so heavily distorts the average.

The Cost Control Plan and Productivity Improvements

We recommend that the department explain to the Legislature why Los Angeles County was allocated funds from the reserve without an approved plan of improvement. We further recommend that the Legislature adopt Budget Bill language requiring the Department of Finance to review county improvement plans and to approve allocations from the reserve fund when amounts of $500,000 or more are requested.

The Budget Act of 1975 required the department to develop and implement a plan to effectively control the growth of county welfare department Medi-Cal eligibility determination costs. This mandate has been included in each subsequent Budget Act.

The 1980–81 cost control plan modified the department's approach to controlling costs. The main features of the current cost control plan are:

1. ***Minimum workload production standards.*** The minimums are based on average performance, and vary according to county size. The minimums for the seven counties in the very large county group are:
   - 58 applications per intake worker per month
   - 383 approved cases per continuing caseworker
   - 7.2 eligibility workers per supervisor
   - 556 "workload units" per administrative/clerical worker

2. ***Budget request and allocations are based on estimates of workload*** (applications, approved, cases, etc.). Each county is allowed a given number of workers based on anticipated workload. The number of workers is multiplied by each county's average cost per worker to derive a basic allocation. Special county problems, such as the additional cost of new office space can, upon county request, be taken into account when budget estimates are prepared.

3. ***Assistance for counties that cannot meet productivity standards.*** When the 1980–81 cost control plan was developed, the Legislature recognized that many counties would be unable to improve productivity to the minimum standards in one year. Therefore an unallocated reserve was created to assist counties which could not meet minimum standards. These counties can receive additional funds

if they submit an acceptable plan for improving productivity in the future.

The 1980–81 unallocated reserve was established at $9,732,400. The department estimated that this reserve was large enough to allow counties with productivity problems to retain 75 percent of their excess staff. In other words, the 1980–81 plan requires counties with productivity problems to eliminate only one fourth of their identified deficiencies in 1980–81. The budget assumes that in 1981–82, one half of the identified deficiencies will be eliminated. This assumption reduces the unallocated reserve required from $9,732,400 to $6,886,857, a reduction of $2,845,543.

The magnitude of productivity problems facing counties varies significantly. The department indicates that during the current year $4,251,877 has been allocated from the $9,732,400 in available funds. Several counties with productivity problems, however, have not contacted the department seeking a supplemental allocation from the unallocated reserve. It is unclear at this time whether they will be able to operate within their base allocation or if they will seek funds in the current year.

The cost control plan provides that "Any increased allocation will be contingent upon department approval of a county plan which outlines the steps to be taken by county management to reduce the level of expenditure to equal the tentative allocation." It should be noted that the department has provided Los Angeles County with funds from the unallocated reserve even though Los Angeles County has not submitted a plan outlining how it intends to improve its productivity. The department's actions appear to be inconsistent with the requirements of the cost control plan and inconsistent with department statements to the Legislature as to how the plan would operate. By allocating funds from the reserve without first approving a plan, the department appears to be foregoing one of the best devices it has for bringing about improvements in county performance. The department should be prepared to discuss this subject at the budget hearings.

In order to insure proper review of county plans for improvement in 1981–82 we recommend the Legislature adopt the following Budget Bill language:

"Provided further, no allocation in excess of $500,000 shall be made from the unallocated reserve without the review and approval by the Department of Finance of the allocation and the county plan for improved productivity."

The Los Angeles county welfare department has been allocated $51,503,961 in the current year which includes (a) $3,248,173 for a 10.73 percent salary and benefit increase, (b) $1,126,652 for higher operating expenses and (c) $3,020,798 from the unallocated reserve which is sufficient to fund one half of the county's identified productivity problems.

The department's December estimates indicate that Los Angeles County has requested an additional $5,389,785. This amount would almost exhaust the funds remaining in the unallocated reserve. The department indicates that a Los Angeles County shortfall of $5,389,785 now appears high and that the shortfall will probably be approximately $3,100,000.

Table 20
Comparison of Workload Goals with
Los Angeles County Performance Data
1978–79 and 1979–80

		Los Angeles County	
Workload	*Goal*[a]	*Actual 1978–79*	*Actual 1979–80*
Applications per worker	58	58	59
Approved cases per worker	383	352	339
Workload units per administrative/clerical worker	556	329	279

[a] The goal is the mean or average production for the seven county welfare departments in the very large county grouping.

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Table 20 compares the workload goals for the seven counties in the very large county grouping and Los Angeles County production figures to 1978–79 and 1979–80.

Medi-Cal Eligibility Data System (MEDS)

We recommend the adoption of Budget Bill language to require the department to develop and implement a plan which would take account of savings in Medi-Cal county administration that will result from MEDS implementation.

The budget proposes a $1,003,079 General Fund reduction in county administration expenditures to reflect savings resulting from partial implementation of MEDS. MEDS objectives are:

- to eliminate duplicate prepaid health plan capitations and fee-for-service payments,
- to improve state control and reduce county costs of issuing "immediate need" (temporary) Medi-Cal identification cards,
- to improve the accuracy and timeliness of information provided to the fiscal intermediary regarding recipient eligibility, and
- to utilize Social Security numbers for recipient identification.

The department currently estimates that when MEDS is fully implemented, the annual operating costs of the system will be $3.4 million, and annual savings in health care and county administration costs will be $6.1 million, for a net savings of $2.7 million annually. MEDS will be in full operation by December 1982.

Status. To date, MEDS has fallen 21 months behind its original implementation schedule and has experienced cost overruns of 452 percent for development and implementation and 127 percent for operating cost, based on the original estimates. Inadequate data processing support from the Health and Welfare Data Center, a high turnover in project staff, inflation, and unexpected complexities have caused most of the delays and cost overruns.

Because of the delays and cost overruns, the MEDS implementation plan was revised in 1980–81 to allow for phased implementation in county welfare offices instead of immediate full implementation. This new implementation schedule, together with faulty workload estimates, has caused a new cost overrun in the county administration item. The December estimates indicate that, because of the phased implementation approach, 7,608 eligibility workers will have to be trained twice, once when the county implements MEDS for temporary card production and once again when the county shifts to full MEDS operation. The department's 1980 May estimates had assumed that 9,611 county eligibility workers would have to be trained one time in MEDS operations. In addition, the 1980 May estimates also failed to include the cost of training county data entry operators in MEDS operations. The updated December 1980 estimates provide for training 1,486 of such personnel.

The effect of these changes is to increase the cost of training county staff from $1.65 million to $3.16 million in the current and budget years. (The MEDS feasibility study did not estimate costs to train county staff in MEDS operations.)

To date, MEDS has been partially implemented for temporary card production in San Francisco, Butte, Tuolumne, and San Diego Counties. Implementation of MEDS terminals and the computer link in Los Angeles County is scheduled for February and March. The department should be prepared to give a MEDS progress report during budget hearings.

County Administration Savings. Of the $6.1 million in gross savings expected to result from full MEDS implementation, $3.8 million results from county eligibility workers having to spend less time processing Medi-Cal eligibility transactions. The department's budget for 1981–82 reflects the savings that can be expected to result from partial MEDS implementation in the budget year ($3,082,179 total funds). Even so, the state has no mechanism to actually capture the estimated savings on an ongoing basis. In addition to removing the savings from the budget base, the County Administrative Cost Control Plan must be adjusted to reflect the reduced county workload as a result of MEDS. Otherwise, the counties may be able to redirect the savings to cover deficiencies in their productivity performance under the Cost Control Plan. If the savings in county administration resulting from MEDS implementation do not accrue to the state, the MEDS project will not be cost beneficial. Consequently, the county administrative cost control plans must be adjusted to reflect the impact of MEDS on workload.

Table 21 shows that if county administration savings are not realized, MEDS will cost $1,154,500 more annually than it would save in health care costs. If estimated county administration savings are fully realized, however, MEDS will result in net annual savings of $2,637,500.

Table 21
Estimated Annual Costs and Savings or Deficit Resulting From Full MEDS Implementation

	Assuming County Administration Savings are Realized	*Assuming County Administration Savings are not Realized*
Estimated Annual Operating Costs	$3,403,400	$3,403,400
Estimated Annual Savings in:		
—Health Care Costs	2,248,900	2,248,900
—County Administration	3,828,000	—
Net Savings or Deficit	$2,673,500	−$1,154,500

Because the department has not developed a plan which would reduce the number of state-reimbursed county eligibility staff, we recommend that the Legislature direct the department to develop an amendment to its current county administration cost control plan which would increase county productivity standards sufficiently to realize planned MEDS savings. Accordingly, we recommend the following Budget Bill language:

"Provided that the department develop and implement an amendment to the county administrative cost control plan which would revise Medi-Cal eligibility determination workload standards to reduce the funds available to counties for Medi-Cal eligibility determination by the savings that will result from MEDS implementation".

The department should be prepared to report to the Legislature on its proposed methodology by April 15, 1981.

Increased Review of Recipient Assets

The budget requests $256,000 ($127,977 General Fund) for additional county welfare department administrative costs that will be incurred as part of the effort to reduce the amount of misreporting of assets by certain MN recipients.

Misreporting of assets can result in (a) an individual who is not eligible for Medi-Cal receiving a Medi-Cal card or (b) the recipient's share of medical expenses being lower than called for under existing law. The department's quality

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control reviews show that client misreporting occurs most frequently among the medically needy aged, blind and disabled category. Failure to report earnings, life insurance assets, other liquid assets and property holdings account for most of the misreporting.

The department proposes to take two actions to reduce misreporting. First, aged, blind and disabled MN applicants will be required to show bank statements, paycheck stubs, tax assessor statements, and other written documentation to eligibility workers to support statements made on the application form. Secondly, three months after they have applied for Medi-Cal, a written restatement of property holdings will be required.

The department estimates that it will cost counties an additional $2.00 per applicant to process the written restatements, or a total of $256,000 ($127,977 General Fund) in 1981–82. The department estimates, however, that these actions will reduce client misreporting by 20 percent, and that 4.9 percent more applications (502 cases) will be found ineligible, resulting in a program savings of $1,942,000 ($971,000 General Fund) in 1981–82. Thus, this effort would result in net savings of $1,686,000 ($843,000 General Fund).

The department's assumption that client misreporting of assets can be reduced by 20 percent cannot be substantiated using available data. The assumption that an additional 4.9 percent of the applications would be denied as a result of the actions proposed is consistent with the results of a 1978 Department of Health Services study. It should also be noted that the department's request makes no allowance for the increased amount of eligibility worker time that would be required to serve clients if some of these clients must come back to the welfare office with bank statements, tax assessor statements and other documents.

It is probable that the department's proposal to improve client reporting of assets would result in some net savings although it is not possible to accurately estimate the amount.

C. HEALTH CARE SERVICE EXPENDITURES

Item 426-101-001(b)

Item 426-101-001 (b) of the Budget Bill proposes an expenditure of $2,552,754,720 from the General Fund for health care services to Medi-Cal recipients. This is an increase of $199,657,620, or 8.5 percent, above estimated current year expenditures. Total state and federal expenditures for health care services in 1981–82 are estimated to be $4,719,376,406, an increase of $510,539,926, or 12.1 percent, over estimated current year expenditures. The 12.1 percent increase does not reflect the cost of any discretionary rate increases that the Legislature may approve for providers of health care services.

Table 22 shows General Fund expenditures for the past, current, and budget years, by service category, and the annual percentage increases in each of these categories. The table indicates:

- Expenditures (total funds) for health care services are expected to increase by $953 million in 1980–81 and by an additional $510 million in the budget year. The rate increase projected for 1981–82 (12.1 percent) is less than half of the increase estimated during the current year (29.3 percent).
- Federal expenditures are expected to grow faster than state expenditures in both 1980–81 and 1981–82. This is largely because (1) the costs of providing health care to refugees are growing rapdily. (The federal government will pay for all medical expenses for Indochinese refugees who have been in the United States less than 36 months.) and (2) the state has improved its procedures in identifying and claiming appropriate available federal matching funds.

- State Hospital Medi-Cal expenditures are expected to increase by 96.5 percent this fiscal year because of a new Medi-Cal rate structure which allows additional state hospital costs to be paid for from federal funds.
- The Adult Day Health Care program is expected to grow rapidly in both 1980–81 and 1981–82.
- Prepaid health plans expenditures are estimated to increase by 59.1 percent in 1980–81. This increase reflects (1) the fact that rate increases for 1979–80 were paid retroactively out of 1980–81 funding, (2) a 12 percent increase in PHP enrollments and (c) 1980–81 rate increases. PHP expenditures are projected to increase by 9.7 percent in 1981–82.

Table 22
Medi-Cal Program[a]
Health Care Expenditures Funded Through Item 426-101-001[b]
by Category of Service
(General Fund)

Category of Service	*Actual 1979–80*	*Change from 1978–79*	*Estimated 1980–81*	*Change from 1979–80*	*Proposed 1981–82*	*Change from 1980–81*
Physicians	$316,098,800	6.7%	$395,363,270	25.1%	$465,785,130	17.8%
Other Medical Services	70,149,300	9.5	90,731,490	29.3	115,063,560	26.8
Hospital Outpatient	116,267,400	16.8	142,746,500	22.8	158,961,280	11.4
Hospital Inpatient	738,104,000	4.9	884,325,390	19.8	921,921,970	4.2
Drugs	98,237,500	3.5	121,600,250	23.8	133,215,560	9.5
Nursing Homes and Intermediate Care	315,399,000	4.9	365,260,960	15.8	374,913,580	2.6
Medical Transportation	13,042,500	6.8	16,254,590	24.6	20,865,930	28.4
Home Health	1,830,100	11.4	2,814,410	53.8	3,111,190	10.5
Other Services	12,743,500	6.8	15,909,790	24.8	18,673,220	17.3
Medi-Screen	5,704,600	50.1	6,666,000	16.8	7,560,000	13.4
Prepaid Health Plans	31,311,000	6.8	49,814,000	59.1	54,666,300	9.7
Redwood Health Foundation	14,412,800	−2.4	17,463,400	21.2	19,513,300	11.7
Dental	59,562,000	−11.-2	80,500,150	35.2	81,420,100	1.1
Medicare Premiums	35,704,700	3.3	40,810,200	14.3	44,583,750	9.2
State Hospitals	58,052,400	−6.3	114,098,700	96.5	111,553,550	−2.2
Adult Day and AB 998			7,913,000		11,791,000	49.0
Audits			825,000		745,000	−9.7
Other[b]					8,410,000	
Total General Fund	$1,886,619,600	5.0%	$2,353,097,100	24.7%	$2,552,754,720	8.5%
Federal Funds	1,368,647,000	6.4	1,855,739,380	35.6	2,166,621,686	16.7
Total Funds	$3,255,266,600	5.6%	$4,208,836,480	29.3%	$4,719,376,406	12.1%

[a] Excludes Short-Doyle Medi-Cal expenditures, and expenditures for 100 percent state funded CHDP health assessments which are funded in Item 426-101-001(c).
[b] Includes adjustments made to the budget for a 4.75 beneficiary cost of living increase and increased monitoring of MN property.

Rate Increases

Expenditures for health care services (all funds) are estimated to increase by $953,569,880 ($466,477,500 General Fund) in the current year. The increase in General Fund expenditures for these services is 24.7 percent above the 1979–80 expenditures. The two principal reasons for the increase are caseload growth and

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rate increases. In the current year caseload increases account for approximately 35 percent, or $330,400,000 ($183,200,000 General Fund), of the total increase in expenditures over 1979–80. Rate increases account for approximately 60 percent, or $573,300,000 ($318,200,000 General Fund), of the 1980–81 increase. The remaining five percent is accounted for by other factors.

Rate increases fall into three general categories: (a) discretionary increases funded through the Budget Act or legislation, (b) statutorily mandated increases which are funded through the Budget Act, and (c) changes in rate setting methodology funded through the Budget Act. Table 24 shows the large fiscal impact that rate increases have on Medi-Cal program expenditures, and carry-over effect of rate increases granted in prior years. The reason why the full effect of a rate increase is not felt during the initial year is that it takes at least one month to issue implementing regulations. In addition, there are billing lags which delay the full impact of a rate increase. Furthermore, rate increase legislation is sometimes passed late in the fiscal year. This also has the effect of reducing the impact in the initial year.

Table 23
Medi-Cal Program
1980–81 Cost of Rate Increases above 1979–80
Base Year Expenditures

	1980–81 Fiscal Effect[a]
Discretionary Increases	
1979–80 budgeted increase	$12,129,700
1979–80 legislation (additional 3% increase) (Chapter 1197 Statutes of 1979 AB 275)	7,629,500
1979–80 legislation (veto override)	19,731,400
1980–81 budgeted increase	90,600,960
Statutorily Mandated Increases	
1979–80 hospital inpatient and drug price increases	48,443,200
1980–81 hospital inpatient and drug price increases	64,811,800
1979–80 beneficiary cost of living	4,878,600
1980–81 beneficiary cost of living	23,333,000
Changes in Rate Methodology	
1980–81 nursing home rates	4,243,000
1980–81 state hospital rates	42,405,700
Total General Fund	$318,206,860
Federal Funds	255,119,940
Total Funds	$573,326,800

The carry-over effect of prior year rate adjustments *will increase Medi-Cal program expenditures in 1981–82, even if no new rate increases are included in the 1981–82 Budget Act.* It is estimated that the carry-over effect of 1980–81 increases will cost $189,200,000 ($101,500,000 General Fund) in 1981–82.

In addition to the increase reflecting annualization of rate increases provided in 1980–81, the proposed budget requests $138,577,900 ($79,975,800 General Fund) for statutorily required rate increases in 1981–82. This amount which is included in the Medi-Cal health care services item would provide for a 15 percent increase in hospital inpatient charges, a 3.9 percent increase for anticipated increases in drug wholesale prices, and a 4.75 percent beneficiary cost of living adjustment.

Changes in Rate Setting Methodology

The department recently changed its rate setting methodology for certain facilities which provide skilled nursing care on a long-term basis. Two new long-term care reimbursement classifications were established, one for facilities with more than 300 beds and one for hospitals which have distinctly identified skilled nursing care beds, in addition to acute care beds. These new reimbursement classifications recognize that large nursing homes, state hospitals, and hospitals with distinct nursing care wings have higher costs than smaller, freestanding nursing homes. Consequently, the rates were increased so that the Medi-Cal program would reimburse these facilities for their actual cost per patient day or the median cost per patient day for the classification, whichever is lower.

These changes in rate methodology will save the General Fund a net of $36,200,000 in 1980–81 by transferring a large part of state hospital operating costs to the federal government. Under the new methodology, the Medi-Cal program will provide reimbursement to state hospitals of approximately $228,197,400 ($114,098,700 General Fund) for skilled nursing care services in 1980–81, and $223,107,000 ($111,553,530 General Fund) in 1981–82. This is a 96.5 percent increase over the amount of reimbursements provided in 1979–80. Table 24 shows the type of facility which benefits most from the change in rate methodology and the percentage distribution of the rate increases among facilities.

Table 24
Increased Medi-Cal Reimbursement to Hospitals and Nursing Homes Due to Rate Change

Facility Class	*1980–81 Increased Medi-Cal Reimbursement*	*Percent of Total*
State Hospitals	$87,712,343	85.3%
County Hospitals with Distinct Part Nursing Homes	11,305,000	11.0
County Nursing Homes with 300+ Beds	882,000	.9
Private Hospitals with Distinct Part Nursing Homes	2,755,000	2.7
Private Nursing Homes with 300+ Beds	169,000	.1
Total	$102,823,343	100%
General Fund	*51,495,172*	
Federal funds	*51,328,171*	

1981–82 Discretionary Rate Increases

The budget proposes that a fund of $509 million be set aside for discretionary cost of living adjustments for state employees (including faculty) and for various health and education local assistance programs. This is sufficient to provide an across the board General Fund increase of 4.75 percent. The Budget Bill, however, does not contain an appropriation for this purpose, nor does the budget include specific recommendations as to what portion of the discretionary cost of living funds, if any, should be available for Medi-Cal provider rate increases.

If a 4.75 cost of living adjustment is approved for Medi-Cal providers, the General Fund cost will be approximately $49,800,000. Table 25 shows the cost in 1981–82 of each one percent rate increase, by provider category. Each one percent Medi-Cal discretionary rate increase results in a General Fund cost of $10,484,600.

Nursing Home Rate Increases

The budget does not provide an amount for cost of living increases for nursing homes or intermediate care facilities. Federal law requires states to pay nursing home rates high enough to cover the costs incurred by efficiently operated facili-

DEPARTMENT OF HEALTH SERVICES—Continued

Table 25
Cost of a One Percent Discretionary
Medi-Cal Program Rate Increase
1981–82

Service Category	*Total Funds*	*General Fund*
Physicians	$4,746,300	$2,631,000
Other Medical	1,375,700	725,500
County Outpatient	382,300	218,500
Community Outpatient	1,338,400	755,800
Drugs	897,900	469,000
SNF	5,412,400	2,731,800
ICF	647900	325,400
Home Health	35,800	18,800
Medical Transportation	212,100	113,400
Dental	1,504,400	814,200
Redwood	220,700	110,300
Prepaid Health Plans	583,000	309,400
State Hospitals	1,859,200	929,600
CHDP	192,000	116,400
AB 998 and ADHC	232,200	117,900
Total	$19,765,100	$10,484,600

[a] Excludes hospital inpatient and drug ingredient increases which are statutorily mandated. Estimates assume an implementation date of August 1, 1981 and assume applicable billing delays and claims payment lags.

ties. In addition, the federally approved state Medi-Cal plan requires the state to use either the Consumer or Producer Price Index or industry trends to project the current year rates into the budget year. If the state is statutorily required to grant rate increases to these providers, it is not clear how much flexibility the state would have in determining the size of the increase. This is because the current state plan allows trends in the nursing home industry to be considered for rate setting. Such trends vary and could justify different rates of increase for 1981–82. We have asked the Legislative Counsel for a legal opinion on these issues.

If nursing homes and intermediate care facilities are legally entitled to a rate adjustment, and if this rate adjustment must be calculated on the same basis as it was in each of the last two years, then these facilities would receive an increase of approximately 12 percent in 1981–82. A 12 percent increase would cost an estimated $36,686,000 General Fund. If it is further assumed that the amount available for all discretionary Medi-Cal provider rate increases will not exceed the overall 4.75 percent, or $49,800,000 General Fund, then a 12 percent nursing home rate increase would consume most of the available funds. The remaining amount available would be $13,114,000 General Fund, which is sufficient for a rate increase of approximately 1.8 percent for other providers.

PHP Rates

In the case of prepaid health plans (PHPs) and the Redwood Health Foundation, the budget proposes a 15 percent increase only for the hospital inpatient component of their rates. Any increase for the outpatient, laboratory or long-term care components of the rates would have to come from the $509 million set aside for discretionary increases.

State law requires that PHP rates be based on actual cost and that these costs be projected into the budget year to reflect anticipated inflation. Consequently,

cost of living increases for the PHP rate components, other than the hospital inpatient component, may also in fact be statutorily mandated.

In 1979–80, PHPs received a 13.13 percent cost of living increase; in 1980–81 the increase was 14.39 percent. Because it makes no provision for increases in the non-inpatient components of PHP rates, the budget proposal is equivalent to a six percent cost of living increase. A 12 percent increase for the noninpatient components of PHPs and the Redwood Health Foundation's rates would cost $9,644,000 ($5,036,000 General Fund).

Beneficiary Cost of Living Adjustment

Existing statutes require cost of living adjustments to the amount Medi-Cal beneficiaries can retain for living expenses. Such cost of living adjustments are based on the percentage change in the California Necessities Index (CNI). The effect of these adjustments is to allow MI and MN recipients to retain more of their income for living expenses, and thereby reducing the amount they must spend on medical expenses.

It is estimated that the CNI will increase by 11.2 percent during the December 1979–December 1980 period, which is the base period for determining the size of the cost of living adjustment for 1981–82. The budget, however, proposes only a 4.75 percent cost of living adjustment at a cost of $14,031,000 ($9,381,000 General Fund). An 11.2 percent adjustment would cost $29,503,000 ($19,359,000 General Fund). Thus, unless current law is changed, it appears that the Medi-Cal budget may be underfunded by $15,472,000 ($9,978,000 General Fund).

Current Year Deficit

The budget projects a $94,099,852 General Fund deficit for the purchase of health care services in the current fiscal year. This represents a deficiency of 4.3 percent in the 1980–81 appropriation for health care services. If the anticipated deficits in county administration and fiscal intermediary contracts are added to the projected deficit for health care services, the total Medi-Cal deficit amounts to $102,520,446 General Fund.

The major reasons for the 1980–81 deficit are as follows:

1. The California Supreme Court prohibited restrictions on the funding of abortions enacted by the Legislature from being implemented, pending a ruling by the court on the issues involved. This case (Committee to Defend Reproductive Rights v. Myers) has been tried at the superior and appellate court levels, and is now before the Supreme Court where oral arguments have been heard. The budget assumes that there will be no reduction in the number of abortions performed in 1980–81, and that a $27,806,200 General Fund deficiency will result.

2. Due to an estimating error, the Budget Act did not appropriate a sufficient amount to reimburse state hospitals. In addition, some 1979–80 state hospital billings were not paid until fiscal year 1980–81. The combination of these two factors results in a $19,900,000 General Fund deficiency.

3. A delay in receiving some federal matching funds for certain disabled Medi-Cal recipients (explained below) is expected to cause a $15,887,700 General Fund deficiency. The Governor's Budget for 1980–81 had assumed that the department's computer process for identifying these recipients and claiming additional federal reimbursement would be improved to the point where the federal government would approve it. The budget, however, now assumes federal approval of the system will be delayed and federal funding will not be available until 1981–82.

4. The department estimates that the number of users of medical services will increase by 7.1 percent over the original budget estimate. Unanticipated caseload growth is expected to result in a $30,500,000 deficit during the current year.

Table 26 summarizes the effect of each of these factors on the General Fund deficit for 1980–81.

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Table 26
Major Factors Causing
1981–82 Medi-Cal Deficit

	General Fund
Abortions Court Order	$27,720,200
State Hospital Underestimate	19,908,700
Delayed Receipt of Federal Funds	15,887,700
Caseload Growth	30,500,000
Other Factors	83,212
	$94,099,852

Medi-Cal Expenditure Estimates

The Medi-Cal expenditure estimate for health care services (Item 426-101-001(b)) is composed of two distinct elements—the base projection and special estimates.

The base projection. The base projection is derived essentially by computing the trend in the number of persons receiving services and multiplying the number of users anticipated in the budget year by the projected cost per individual served. The number served and unit costs are projected separately for each service category.

Special estimates. Special estimates are prepared to reflect the impact of recent legislation, court orders, federal regulations and other items not yet fully reflected in the most recent expenditure data. The special estimates *add* $69,106,000, or 3.0 percent, to the base estimate for 1980–81. The special estimates for 1981–82 *reduce* the base projections by $14,671,000.

Table 27 briefly describes the major special estimates and shows their General Fund fiscal effect in 1980–81 and 1981–82. The special estimates are important not only to the estimating process; they are also important because they highlight many of the major policy changes now occurring in the Medi-Cal program.

Table 27
General Fund Fiscal Effect of
the Major Special Estimates

	1980–81	*1981–82*
A. Costs		
1. Federal cost shift: refugees	$1,404,000	$7,243,000
2. Beneficiary cost of living	23,333,000	9,381,000
3. Abortions expenditures	37,111,000	38,025,000
4. New benefit: acupuncture	487,000	2,740,000
5. Expansion of Adult Day Health Care Program	2,666,000	5,609,000
6. Multi-Purpose Senior Service Project	5,247,000	6,030,000
7. Newborn screening program	425,000	951,000
8. Early screening of children for medical problems: (Medi-Screen)	10,356,000	11,635,000
9. Rate change: nursing homes with 300+ beds	7,639,000	9,374,000
B. Savings		
10. Improved claiming of federal funds for MI-Adult pregnancy services	−15,676,000	−16,585,000
11. Shift of MI-Adults to disabled category improves federal matching. Results from DSS simplified disability referral system	−3,568,000	−16,718,000
12. Claiming of federal funds for cases retroactively classified as disabled	-	−26,712,000

13. Reduction of unnecessary emergency hospital admissions, better review of hospital days authorized, review of hospital ancillary services	–	−4,886,000
14. Drug formulary charges	−713,000	−1,837,000
15. Reduction of infections contracted in hospitals results in shorter stays	–	−1,953,000
16. More PHP enrollees: reduced fee-for-service cost	−125,000	−1,559,000
17. Improved management of Medicare buy-in	–	−1,532,000
18. Increased Social Security payments reduce Medi-Cal's nursing home costs	–	−10,597,000
19. Hospital Cost Control Plan	−185,000	−7,931,000
20. Medi-Cal pays hospitals less for patients who could be in a nursing home	–	−1,064,000
21. Medi-Cal pays hospital less by assuming their occupancy rate is at least 55 percent	–	−10,021,000
22. Medi-Cal screens hospital ancillary charges more diligently and therefore pays less	–	−1,931,000
23. Medi-Cal more carefully reviews the property holdings of MN recipients, transferring more medical cost to such persons	–	−917,000
C. All other	705,000	−1,462,000
General Fund Total	$69,106,000	−$14,671,000

Table 28 shows that from 1976–77 through 1979–80, the Medi-Cal program grew more slowly each year in percentage terms. In fiscal year 1979–80, the program grew less in percentage terms than it had in any prior year. In 1980–81, expenditures for health care are expected to grow more rapidly than they have in any year since 1968–69. Our discussion of major policy changes in the Medi-Cal program appears in the next two sections of this analysis. Changes which do not require additional staffing are discussed in the first of these sections. Policy changes which require additional staff for implementation are discussed in the second section, which begins on page 798.

Table 28
Medi-Cal Expenditure Trends (All Funds)
For Health Care Services
(in millions)

	Actual 1975–76	*Actual 1976–77*	*Actual 1977–78*	*Actual 1978–79*	*Actual 1979–80*	*Estimated 1980–81*	*Proposed 1981–82*
Professional Services	$485.5	$603.0	$707.8	$764.0	$858.7	$1,102.3	$1,331.3
Prescription drugs	129.3	143.6	157.3	174.6	182.2	230.6	255.0
Hospital Inpatient	677.9	837.7	1,008.5	1,083.5	1,147.9	1,483.8	1,626.9
Nursing homes and intermediate care	369.7	426.5	511.2	595.6	626.3	723.4	742.8
State hospitals	100.1	91.0	77.4	123.9	116.1	228.2	223.1
Other services	26.1	31.7	40.0	64.8	48.5	64.2	78.0
Prepaid health plans	90.6	70.2	60.9	58.6	62.6	93.8	103.0
Redwood Health Foundation	18.3	21.4	28.1	29.6	38.8	34.9	39.0
Dental Service	78.1	99.5	121.3	124.2	110.3	148.3	150.4
Short-Doyle	35.1	83.2	91.6	89.6	29.2	80.0	80.0
Title XVIII B Buy-In	44.4	47.3	53.0	55.9	60.5	68.4	74.4
Adult Day/Senior Service Centers	—	—	—	—	.06	15.7	23.2
Child Health Disability Prevention	—	4.2	6.1	7.6	14.6	17.0	19.2
Adjustments	3.5	2.0	4.2	−.3	7.7	1.6	13.0
Total	$2,058.3	$2,461.5	$2,867.9	$3,171.6	$3,293.8	$4,292.5	$4,759.3
Increase over prior year	11.5%	19.6%	16.5%	10.5%	3.8%	30.3%	10.9%

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1981–82 Abortions Funding

The budget assumes that the circumstances under which the Medi-Cal program will pay for abortions will not be restricted in 1981–82. Consequently, the Budget Bill proposes no control language related to abortion funding, and includes $38,345,000 ($38,025,000 General Fund) for that purpose. This amount is sufficient to fund the current level of an estimated 98,700 elective and medically necessary abortions.

Abortion Fees

We recommend physicians fees for performing an abortion be reduced in recognition that the relative difficulty of performing the procedure has declined since the 1969 relative value study was published. This reduction would result in a general fund savings of $4,242,000 and a savings in federal funds of $35,700.

In 1974, the California Medical Association (CMA) updated its 1969 version of the relative value study (RVS) which compares the relative difficulty of medical procedures. The 1974 RVS indicates that the difficulty of an abortion, compared to other procedures, had declined. Last year, the department announced its intention to issue regulations reducing the amount that physicians would be reimbursed for performing an abortion from $175.50 to $121.32. The proposed rate reduction recognized CMA's finding that the relative difficulty of the abortions procedure had declined. The department, however, did not reduce the fee. Instead, the fee was increased. The department maintains that the reason for the fee increase was Budget Act language which provides that the minimum nine percent rate increase granted by the Legislature was to apply to all medical procedures. The department should be prepared to discuss at the budget hearings what its intentions are with regard to abortion fees in 1981–82.

Refugee Costs

We recommend the department submit a report to the fiscal subcommittees on Indochinese refugee caseloads, costs and federal fiscal participation by April 1, 1981.

The department estimates that the Medi-Cal caseload of Indochinese refugees will increase from approximately 133,500 in 1980–81 to 192,000 in 1981–82, an increase of 43.8 percent. Total Medi-Cal program costs for Indo-Chinese Refugees will increase from $91,020,000 in 1980–81 to $134,221,000 in 1981–82. The federal Refugee Act of 1980 provides that, effective April 1, 1981, the federal government will no longer pay 100 percent of the medical expenses incurred on behalf of *all* refugees. As of that date, expenditures for refugees who have been in the United States for 36 months or more will qualify for a maximum of 50 percent federal funds.

Currently, the department is developing a computer program which will be capable of identifying refugees and tracking their medical expenses. Due to a federal requirement that certain refugees be classified using AFDC welfare codes effective in early 1978 the state lost the ability to identify many refugees. Consequently, the state has been paying for one half of the medical expenses of many refugees who are eligible for 100 percent federal funding.

The department estimates that the computerized tracking system will be operational in late February 1981, and that the state will then be able to claim 100 percent federal funding for refugees who have been in the United States less than three years. In addition, the department expects to recoup approximately $29.3 million in state funds paid on behalf of refugees eligible for 100 percent federal funding. Assuming the computerized claiming system works properly, the department estimates that only $1,404,000 in Indochinese refugee medical expenses will

have to be paid from state funds in 1980–81 and that $7,243,000 in state expenses will be incurred in 1981–82.

We recommend that, by April 1, 1981, the department submit a report on the refugee claiming system to the fiscal subcommittees which includes:

1. Estimates of the total number of refugees that have or are expected to receive services under Medi-Cal, and the cost of those services (all funds), for fiscal years 1979–80 through 1982–83.
2. Estimates of the number of refugees whose medical expenses must be fully or partially paid by the state for fiscal years 1979–80 through 1982–83, and the General Fund cost of these payments.
3. Estimates of the amount of federal funds that the state is entitled to recoup and a description of problems, if any, that the state will encounter in securing federal release of the funds.
4. A discussion of how long Indochinese refugees normally require Medi-Cal program assistance, and when and if sufficient numbers will no longer qualify for federal matching funds because they will have been in the United States 36 months or longer.
5. A description of any significant shortcoming in the computerized tracking system which might affect the state's ability to claim federal funds.

Increased Claiming of Federal Funds

The special estimates indicate that the department is developing two computer processes to permit the improved identification of certain MI Adult medical expenses. The computer processes identify (a) the expenses for pregnancy-related services for MI Adult recipients and (b) the expenses for MI Adults who were later classified as disabled on a retroactive basis. Until the computer process for cases retroactively classified as disabled becomes operational and is federally approved, the state must pay 100 percent of the MI Adult costs from the General Fund. The department anticipates that the computer systems will receive federal approval, and that recovery of federal funds for prior fiscal years can be accomplished near the end of 1980–81. The department estimates that the improved claiming system will reduce Medi-Cal expenditures by an estimated $43,297,000 in 1981–82, from the General Fund. The appropriation requested from the General Fund for Medi-Cal in 1981–82 has been reduced by that amount.

The recoveries related to the two computer projects are estimated at $211.4 million. MI Adult pregnancy services account for $22 million of this amount and retroactive eligibility for the disabled accounts for the balance—$189.4 million. When the estimated recovery of $29.3 million for Indochinese refugees is added in, *total recoveries are estimated at $240.7 million.* These funds will be deposited in the General Fund, and will be treated as an adjustment to prior year expenditures. Until federal recoveries are actually received, however, the department's anticipated recoveries are not being included in the Department of Finance's estimate of the uncommitted General Fund surplus. Thus, if these amounts are recovered from the federal government during the budget year, the General Fund surplus as of July 1, 1981 will be $240.7 million larger than the amount shown in the Governor's Budget.

Adult Day Health Care

The budget proposes a 110 percent increase in Medi-Cal expenditures for Adult Day Health Care (ADHC), from $5,179,000 ($2,666,000 General Fund) in 1980–81 to $10,896,000 ($5,609,000 General Fund) in 1981–82. The ADHC program was established as a Medi-Cal benefit by legislation in 1977 and offers elderly and chronically ill beneficiaries meals, medical services, and occupational and physical therapy. There are currently 12 ADHC centers in operation which serve an aver-

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age of 50 people each. The budget assumes that 50 centers will be licensed and in operation by July 1, 1981. Elderly or chronically ill Medi-Cal beneficiaries who (1) are in nursing homes, (2) are being discharged from hospitals, or (3) are "in danger" of being institutionalized, are eligible for ADHC benefits.

The cost of the ADHC program may increase rapidly because eligibility requirements are not drawn in such a way as to meaningfully limit the number of potential eligibles. This is particularly true of criterion number (3) above. For the same reason, we cannot quantify the number of persons potentially eligible for the program.

Table 29 shows the department's preliminary estimate of caseload in 1980–81 and 1981–82, along with its estimates of program costs and number of centers in operation. The table also shows the department's estimates of program costs once the program has been fully implemented. The department believes that the ADHC program could ultimately expand to 642 centers, *at an annual cost of $123,264,000.*

Table 29
Estimated Medi-Cal Cost Increase from Adult Day Health Care Benefits

	Estimated 1980–81	*Proposed 1981–82*	*Department's Preliminary Estimate-Fully Expanded Program Level*
Average Number of Centers	27	57	642
Average Number of Eligible Beneficiaries	1,348	2,838	32,100
Monthly ADHC Cost Per Eligible Beneficiary	$320	$320	$320
Total Annual ADHC Costs	$5,179,000	$10,896,000	$123,264,000
General Fund Share	$2,666,000	$5,609,000	$61,632,000

The department's projections (which may be conservative) raise the possibility that the program may not achieve one of its goals—to reduce costs by moving Medi-Cal beneficiaries out of nursing homes. Savings from moving Medi-Cal beneficiaries out of nursing homes could be minimal because the current high nursing home occupancy rate and waiting lists may make any *net* decrease in the nursing home populations difficult to achieve.

Hospital Inpatient and Outpatient Services

Medi-Cal will spend an estimated $1,814,759,320 ($1,080,833,250 General Fund) on hospital inpatient and outpatient services in 1981–82. These expenditures will account for 39 percent of total Medi-Cal health care expenditures.

The General Fund share of hospital costs is $53,811,360, or 5.2 percent, above the current-year level. The budget estimate assumes that all of the proposals to reduce Medi-Cal program reimbursements set forth in the Governor's Budget will be approved by the Legislature.

Background

Medi-Cal expenditures for hospital inpatient and outpatient services are heavily concentrated in relatively few of California's approximately 550 hospitals. Fifty hospitals statewide account for approximately one-half of the Medi-Cal program's hospital expenditures. County and teaching hospitals serve a disproportionately large number of Medi-Cal clients, while investor-owned and district hospitals

serve only a small portion. Twenty hospitals account for one-third of the Medi-Cal hospital expenditures. These hospitals are listed in Table 30. The table shows that:

- all but four of the hospitals are county or teaching hospitals,
- on the average, the hospitals received 46 percent of their total revenue from Medi-Cal, while Medi-Cal accounted for only 18.5 percent of hospital revenues statewide,
- the hospitals had an average occupancy rate of 61 percent, while the statewide average was 57 percent,
- the hospitals received an average of 24 percent of their total revenues from their outpatient departments, while hospitals statewide received only 17 percent from their outpatient departments, and
- the adjusted inpatient costs per patient day were, on the average, seven percent higher in these hospitals than in geographically comparable hospitals.

Table 30
Hospitals Ranked by Medi-Cal Revenue Received
1978–79[a]

	Medi-Cal Revenue[b] (in thousands)	*Medi-Cal Revenue As Percent of Total Revenue*	*Inpatient Occupancy Rate*	*Outpatient Revenue as Percent of Total Revenue*	*Inpatient Costs Per Patient Day as Percent of HFPA[d] Average*
I. 20 Hospitals with Highest Medi-Cal Revenue:					
Los Angeles County-U.S.C. Medical Center	$72,523	50%	62%	36%	83%
U.C. Irvine Medical Center	43,304	70	73	23	106
Los Angeles County-Harbor General Hospital	29,608	50	51	49	123
Los Angeles County—Rancho Los Amigos Hospital	26,521	54	51	10	92
U.C. Davis, Sacramento Medical Center	21,109	35	63	22	140
Santa Clara County-Valley Medical Center	20,954	40	45	21	118
Los Angeles County-Martin Luther King, Jr. General Hospital	19,532	60	61	54	99
Fresno County-Valley Medical Center	17,228	61	51	25	126
U.C. Los Angeles, Hospital and Clinics	16,676	18	69	25	116
Children's Hospital of Los Angeles (nonprofit)	15,107	38	68	28	102
San Francisco City and County-General Hospital	14,771	31	52	23	138
U.C. San Diego, Medical Center	14,406	34	57	20	114
Alameda County-Highland General Hospital	14,177	51	40	25	88
Los Angeles-Cedars-Sinai Medical Center (nonprofit)	13,541	10	64	10	122
U.C. San Francisco, Hospital and Clinics	11,616	17	76	20	122
San Bernardino County-Medical Center	11,104	44	45	26	102
San Francisco-Mount Zion Hospital and Medical Center (nonprofit)	10,686	23	59	20	NA
Loma Linda-Loma Linda University Medical Center (nonprofit)	10,685	15	67	11	107
San Joaquin County-General Hospital	10,546	61	44	36	NA

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Los Angeles-White Memorial Medical Center (nonprofit)	10,252	64	63	11	89
II. 20 Hospital Total	$404,346	46%	61%	24%	107%
III. Statewide Total	$1,214,791[c]	18.5%	57%	17%	100%
IV.Row II as a Percentage of Row III	33%	248%	107%	141%	107%

[a] Data reflect each hospital's fiscal year closing between June 30, 1978 and June 30, 1979. Source: California Health Facilities Commission.
[b] Includes both outpatient and inpatient revenue.
[c] Estimated as the average of 1977–78 and 1978–70 actual Medi-Cal payments to hospitals.
[d] Health Facility Planning Area.

Hospital Reimbursement Based on Occupancy Standards

The budget proposes a new hospital inpatient reimbursement procedure based on minimum occupancy rate standards. Bed occupancy rates have previously not been a factor in hospital inpatient reimbursement. The effect of the new procedure would be to reduce reimbursements to hospitals for cost associated with excess bed capacity.

The proposed methodology would divide a hospital's expenditures into two cost categories, fixed and variable. Variable costs, such as personnel and operating costs, would continue to be reimbursed as before, at 100 percent of audited costs. Fixed costs, such as building and depreciation costs, would be reimbursed at 100 percent only if the hospital had an occupancy rate of at least 55 percent. A hospital which had an occupancy rate of less than 55 percent would be reimbursed at less than 100 percent of audited fixed costs. It would have to cover the remaining portion of its fixed costs by either (1) increasing charges to other revenue sources or (2) reducing its licensed bed capacity so that a 55 percent occupancy rate is achieved. Twenty-nine hospitals in rural areas, where accessibility to hospital services is limited, would be exempt from the 55 percent occupancy standard.

Licensed bed size is not always a good indicator of a hospital's capacity because many hospitals, particularly county hospitals, have found that they do not have the need or the money to maintain all of their licensed capacity, and thus have licensed beds that are not available—"phantom" beds.

The phantom bed problem makes it difficult to calculate the fiscal effect of the proposed reimbursement methodology. To the extent that a hospital could delicense phantom beds and thereby increase its occupancy rate to above 55 percent, the proposed methodology would have no fiscal effect on it.

Table 31
Estimated Savings Resulting from Hospital Reimbursement Plan Based on a 55 Percent Occupancy Standard
(in millions)

	1981–82		*1982–83*	
County Hospitals	*Total Funds*	*General Fund*	*Total Funds*	*General Fund*
Assuming No Delicensing of Phantom Beds	$12.1	$8.3	$16.6	$11.4
Assuming Full Delicensing of Phantom Beds	0.7	0.5	1.0	0.7
Non-County Hospitals				
Assuming No Delicensing of Phantom Beds	$11.3	6.9	15.5	9.4
Assuming Full Delicensing of Phantom Beds	7.7	4.5	10.6	6.2
Total				
Assuming No Delicensing of Phantom Beds	$23.4	$15.2	$32.1	$20.8
Assuming Full Delicensing of Phantom Beds	$8.4	$5.0	$11.6	$6.9

Thus, savings in 1981–82 could range from $8.4 million ($5.0 million General Fund) to $23.4 million ($15.2 million General Fund).

Table 31 shows the possible range of effects that the proposed 55 percent occupancy standard might have. In 1981–82, county hospitals could have revenues reduced by an amount ranging from $12,100,000 to $700,000 depending on how many beds they delicense. Other hospitals could lose anywhere from $7,700,000 to $11,300,000 as a result of the new standard.

The budget estimates that the savings in 1981–82 will be $15.8 million total funds. This estimate may be high because it assumes that county and non-county hospitals would be willing to incur Medi-Cal revenue losses in 1981–82 of $7.4 ($15.8 million minus $8.4 million) million in order to retain unused "phantom bed" capacity. Hospitals could also delicense *available* beds which would further decrease the savings that would result from this reimbursement scheme. Thus, our analysis indicates that the budget overestimates the amount of savings that will result from the occupancy standard and proposes to underfund hospital inpatient services by an undetermined amount that could be as high as $7.4 million.

We believe that the occupancy standard of 55 percent will reduce Medi-Cal expenditures on hospital in-patient services in 1981–82, and that a higher occupancy standard could increase those savings in future years. The occupancy standard would also cause hospitals to delicense all or some of their phantom beds. This would provide more reliable estimates of hospital capacity to the state's health planning program which uses the number of licensed beds in a geographical area to indicate the need for new hospital capacity.

Hospital Cost Increase Control Plan

During the current year, the department instituted a hospital inpatient cost control plan which it estimates will save $271,000 ($185,000 General Fund) in 1980–81 and $11,629,000 ($7,931,000 General Fund) in 1981–82. The plan places cost increase limits on particular hospital cost centers, using 1979–80 as a base year. Certain costs are subject to industry-wide inflationary trends and may not exceed the projected inflation rate. Other costs, such as depreciation, malpractice insurance, interest, and utilities, are "passed through" without limitation. The plan also limits increases in service intensity (additional staff or medical equipment) to one percent per year.

Payment Reduction: Hospital Administrative Days

Frequently, hospitals are unable to move patients who are no longer in need of hospital care to nursing homes on a timely basis, either because there are no vacant nursing home beds in the locality or because nursing homes are reluctant to accept certain patients. The result is that some patients remain in hospitals who would otherwise be in nursing homes.

Currently, a hospital must obtain authorization from the department in order to keep such patients in acute care beds until a skilled nursing bed can be located. The current reimbursement rate for each authorized "administrative day" is $130, on the average. The department proposes to issue regulations reducing the Medi-Cal reimbursement from $130 to $84 per administrative day. The department defends this reduction on the basis that it currently pays 68 hospitals which have sections set aside for nursing home patients an $84 a day rate. This is a median rate which was established by auditing the actual operating costs of the 68 hospitals.

It is not clear to what extent the proposed $84 a day rate includes services for heavy care cases. Heavy care cases are those which require tube feeding, respirators and other intensive services. The department is reviewing the data on the cost of caring for such cases, and anticipates that it will have more information at the budget hearings.

The department estimates that the reduction in the administrative day rate will

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result in savings of $2,112,000 ($1,064,000 General Fund) in 1981–82. The savings estimate assumes that the rate reduction would apply to both heavy care and normal care patients. The department has requested no additional staffing to implement the proposed rate reduction. However, a minor change to the Computer Sciences Corporation claims processing system might be required to permit separate billing for ancillary services. The department believes the cost of such a change order would be minor. The Department of Finance has indicated that the funding for a change order could come from a portion of the $500,000 proposed for unspecified CSC change orders.

Analyst's Comments

The data currently at our disposal does not indicate what percentage of heavy care cases is in the $84 a day rate. Nor can we determine from available data what percentage of authorized administrative days might be expected to require heavy care. Until more data is available we withhold recommendation on this proposal.

The May Estimates

We recommend that the fiscal subcommittees defer action on the request for $2,552,754,720 to cover the cost of health care services (Item 426-101-001(b)) until revised Medi-Cal expenditure estimates are submitted in May.

The $2,552,754,720 proposed for health care services in 1981–82 is based on expenditure estimates prepared by the department. In May 1981, the Department of Finance will transmit revised expenditure estimates to the Legislature and submit a Budget Change Letter requesting adjustments in the appropriation for the cost of health care services. We recommend that the fiscal subcommittees not take final action on this item until the May 1981 expenditure estimates are available and have been analyzed.

Estimating Uncertainties

The budget request for Item 426-101-001(b) is based on actual expenditure and caseload data through November 1980. The revised estimates will be based on data through January 1981, which will make them more reliable. At the Legislature's request, the department has included expenditure ranges with the Medi-Cal estimates to account for estimating uncertainties. Three factors have been identified which the department believes could cause the estimates for 1981–82 to be either too high or too low by as much as $456,300,000 ($249,600,000 General Fund). Table 33 shows the fiscal effect associated with each of these factors.

Table 33
Factors of Uncertainty
in the 1981–82 Medi-Cal Estimates

Factors	*Dollar Variation*
1. Normal 4 percent variation in large economic regression models	±$101,400,000
2. Uncertainty in user trends (+ or − 38,600 users)	61,400,000
3. Distorted trend data associated with conversion to CSC	86,800,000
Total General Fund	$249,600,000
Total Federal Funds	206,700,000
Total Funds	$456,300,000

A key element in the 1981–82 Medi-Cal estimate will be user trends in the remaining months of this fiscal year. The most recent data indicates that the number of persons receiving service may not be growing as rapidly as projected earlier.

Legislative Notification

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

Control language in the 1980 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, and approves the proposed rule or regulation. In addition the language required that the Legislature be notified in advance of such rules or regulations. The 1981 Budget Bill, as introduced, deletes the requirement that the Legislature be notified of proposed Medi-Cal regulations which would add to program costs.

We believe that the Legislature should receive timely notification of proposed major cost changes in the Medi-Cal program. Accordingly, we recommend that the following Budget Bill language be added to Item 426-001-001.

"provided further that when a date for public hearing has been established for a change in Medical Assistance Program rule, regulation or when a Medical Assistance Program state plan amendment, contract, or interagency agreement has been approved, the fiscal committees and the Joint Legislative Budget Committee shall be notifed 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 procdures give the Legislature time to evaluate the proposed changes in terms of legislative priorities and other demands on the budget. This enhances legislative oversight of administrative decisions regarding the expenditure of Medi-Cal funds.

Short-Doyle/Medi-Cal

The budget proposes the addition of 20 new positions, at a cost of $1,040,317 ($453,510 General Fund), to address compliance issues which have resulted from federal reviews of the Short-Doyle/Medi-Cal program. The positions are proposed for the Department of Health Services (ten), the Department of Mental Health (seven) and, the Department of Alcohol and Drug Programs (three). The purpose of the new positions is to resolve federal compliance issues and thus avoid the loss of as much as $40 million in federal matching funds.

Currently, 12 Department of Mental Health positions and four Department of Health Services positions are budgeted for Short-Doyle/Medi-Cal compliance issues. If the Legislature approves the 20 requested new positions, a total of 36 positions in three different departments will be authorized, at an estimated cost of $1,670,000 (all funds). Table 35 shows the functional areas of the 36 positions, by department.

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Table 35
Short-Doyle/Medi-Cal Positions
by Department and Function

Function	*Health Services*	*Mental Health*	*Alcohol and Drugs*
Utilization Review (UR) Audits	10 (6 new)		
Technical Assistance to Counties		9 (3 new)	1 (new)
Rate Development	1 (new)		
Audit of Recipient's Eligibility		4[a]	1 (new)
Policy Formulation		5 (4 new)	1 (new)
Data Processing	1		1[a]
Provider Certification	1 (new)		
Maintenance of Master Provider File	1 (new)		
Total	14 (10 new)	19 (7 new)	3 (new)

[a] Limited term in 1980–81, requested again for 1981–82.

Background

The following material is intended to provide a general overview of federal funding problems related to the Short-Doyle Medi-Cal program. The individual position requests and our recommendations regarding those positions are discussed in connection with each department's support item.

The Short-Doyle program provides funds to counties for mental health and drug abuse services. The Department of Mental Health administers funds for mental health programs, while the Department of Alcohol and Drug Programs administers funds for drug programs. Most counties provide some direct services, while other services are provided through contracts with private providers.

Since 1971, the state has claimed federal reimbursement for mental health services provided under the Short-Doyle program. Some clients served by the Short-Doyle program are eligible for Medi-Cal reimbursement. Therefore, federal reimbursement can be claimed for certain services. Medi-Cal Short-Doyle claims are forwarded from counties to the Departments of Mental Health and Alcohol and Drug Programs, and then to the Department of Health Services which acts as a claims processor for the federal funds.

The federal government has been examining the use of federal funds in local mental health programs for several years. Federal officials, as well as staff in the Department of Health Services, have raised a number of questions about the extent to which use of federal funds in these programs complies with federal law and regulations. Because these issues have not been resolved, the federal government has withheld a portion of the funds claimed by the state in connection with the Short-Doyle/Medi-Cal program. In addition, the Department of Health Services has refused payment for a portion of the cliams submitted for federal funding. In 1979–80, $10,605,600 in federal claims were paid. This compares to $35,554,100 in federal claims paid during 1978–79 when the federal compliance issues were not a problem.

Improved Claiming System Demanded

Federal officials have indicated that the state's Short-Doyle claiming system must be improved to meet minimum federal criteria in 1981–82. Failure to meet these criteria could result in termination of as much as $40 million in federal funds.

In general terms the claims processing system must be able to verify that:

1. the patient was Medi-Cal eligible when the service was rendered,
2. the providers who bill Medi-Cal are qualified under Medi-Cal program guidelines to submit claims;
3. eligible providers claim only for Medicaid reimbursable services; and
4. the amount paid for the service is reasonable and appropriate under federal guidelines.

In addition, the federal government has indicated that the state must take steps to insure that providers have functional utilization controls which preclude the delivery of medically unnecessary services.

The Basic Problem

There are fundamental differences between the Medi-Cal program and the Short-Doyle program, even though both programs fund services for mentally disabled persons. Medi-Cal is a highly structured, medically oriented program with program controls including service limitations and prior authorization requirements. These controls are intended to prevent delivery of unnecessary service and to keep expenditures to a minimum. Medi-Cal pays uniform fees for specific services. These fees are generally below usual and customary fees charged by fee-for-service providers.

In contrast, the Short-Doyle program offers a broad range of services. Social services and adult day mental health care, as well as traditional psychiatric services, are part of the program. There is little attempt to limit services provided by licensed medical professionals. Short-Doyle is a decentralized program and service delivery systems vary greatly from county to county. Short-Doyle services are funded essentially though allocations to counties and negotiated contracts with private providers, rather than on a fee-for-service basis. The oversight monitoring role of the state in the Short-Doyle program is minimal in comparison to the overall Medi-Cal program. The Departments of Mental Health and Alcohol and Drug Programs do not closely control the amount or kind of service particular providers render.

The Administration's Decision

It is unclear how much of the structure of the fee-for-service Medi-Cal program must be imposed on the Short-Doyle program in order for the state to retain federal matching funds. The administration has made the decision to place at least some of the features of the Medi-Cal fee-for-service claims processing controls on a portion of the Short-Doyle program. Whether this will satisfy federal requirements is not known. The 1980 Budget Act provided funds for 11 positions in the Department of Mental Health to resolve problems related to the Short-Doyle/Medi-Cal program. In the budget for 1981–82, the administration proposes 20 additional positions in three departments.

Review Needed

We recommend the Legislature adopt Supplemental Report language requiring that the Department of Finance review by December 15, 1981 the feasibility and advisability of consolidating staff committed to Short-Doyle Medi-Cal compliance issues within a single state agency.

While it may be necessary to provide additional positions in the short term to assure receipt of federal funds, long-term resolution of the Short-Doyle/Medi-Cal problems will not be accomplished unless serious examination is given to the question of the organizational placement of this compliance effort. Consequently, we recommend the Legislature adopt the following Supplemental Report language:

DEPARTMENT OF HEALTH SERVICES—Continued

"Department of Finance's Program Evaluation Unit shall review the feasibility and advisability of consolidation of staff committed to Short-Doyle/Medi-Cal compliance issues within a single state agency. By December 15, 1981, the Department of Finance shall submit a report to the Legislature of findings with recommendations for correction of identified problems."

Department of Health Service's Short-Doyle Medi-Cal Positions

We recommend approval.

The budget proposes 10 new positions at a cost of $631,686 ($233,724 General Fund) to operate a Short-Doyle/Medi-Cal claims processing and utilization review monitoring system, and to manage other responsibilities specified in an interagency agreement. Table 34 shows the functions of the proposed positions.

Table 34
Department of Health Services
Short-Doyle/Medi-Cal Position Request

Number of Positions	*Positions*	*Function*
1	Nurse Consultant	Update master list of 425 providers qualified to bill Short-Doyle/Medi-Cal. Add and delete providers, evaluate provider questionnaires and applications, determine services each provider is eligible to bill.
1	Nurse Consultant	Certify 281 mental health clinics meet standards for staffing, service categories, medical records retention, etc. (If facilities are not ultimately certified they cannot bill for federal funds.)
1	Analyst	Develop a rate structure for Short-Doyle/Medi-Cal outpatient services.
6	Two Utilization Review Teams	The teams will (a) conduct on-site reviews of patient charts selected on a random sample basis to verify medical necessity of services and to confirm that services billed are Medi-Cal benefits, (b) review accounting and billing systems, (c) verify that Medi-Cal proof-of-eligibility labels are on file, (d) review U.R. committee minutes, and (e) issue audit disallowances.
1	Computer Programer	Implement an automated claims processing and eligibility verification system.

Implementation Problems

Implementing a claims processing system which is acceptable to federal officials may be difficult. The department should be prepared at the budget hearings to discuss the following implementation problems:

1. Should the Medi-Cal program create a dual rate structure which will pay Short-Doyle/Medi-Cal providers more than providers who bill Medi-Cal on a fee-for-service basis? Assuming a dual rate structure is created, will providers within the Medi-Cal Short-Doyle program continue to be paid different amounts for the same service?
2. Will the rate structure exclude the costs of day care and social service activities which the Medi-Cal program does not pay for on a fee-for-service basis?
3. How will rate increases be determined? Who will determine them?
4. Should Short-Doyle/Medi-Cal patients be subject to the same service limits as fee-for-service Medi-Cal patients? Currently, fee-for-service patients are allowed only eight outpatient therapy sessions in a 120 day period and non-emer-

gency hospitalizations require department approval.

5. Should Short-Doyle Medi-Cal claims be submitted on a timely basis? (The department is now processing Short-Doyle/Medi-Cal claims which have 1978 and 1979 dates of service). Fee-for-service Medi-Cal providers are required to submit claims within 60 days of service.

6. Given the department's original staffing proposal, can the department indicate to the Legislature that the proposed augmentation of 10 positions will be sufficient and that more staff will not be needed later? Is it the department's judgment that enough facilities certifications and utilization review audits will take place in 1981–82 to satisfy federal concerns?

The immediate choice facing the Legislature is whether to approve or disapprove the 10 requested positions. If the positions are approved, the Short-Doyle Medi-Cal program will probably continue to receive federal funding, although the dollar amounts are uncertain. If the positions are denied, the department will not have the resources to respond to federal concerns. In that event, federal funding will most likely be terminated. If federal funding is terminated, the administration and the Legislature would then be required to decide whether to augment the Short-Doyle budget to make up for lost federal funds or whether to reduce the level of service. Given the options facing the state we recommend approval of the 10 proposed new positions for the Department of Health Services.

Short-Doyle Budget Act language

We recommend the adoption of Budget Bill language identical to that included in the 1980 Budget Act in order to restrict General Fund loans to the Short-Doyle program.

The Legislature added the following language to the 1980 Budget Act:

"Provided further that no General Fund money appropriated pursuant to this item shall be loaned for the purpose of meeting Short-Doyle program fiscal obligations or to cover federal Short-Doyle program audit exceptions."

The language was added to prevent the Medi-Cal appropriation from being used as a source of General Fund money for the Short-Doyle program when federal advances are withheld. Such loans could occur if all or part of the $40 million in federal funds for Short-Doyle/Medi-Cal is not in fact available to the state. The assumption that $40 million in federal Short-Doyle funds will be available in 1981–82 is optimistic. In 1979–80 the actual amount of federal funds claimed was $10,605,600. In the three prior fiscal years (1976–77 through 1978–79), when federal officials were not questioning the validity of the state's claims for federal funds, the maximum claimed was $35,554,100 (1978–79). We do not believe the Medi-Cal program General Fund appropriation should be used as a substitute funding source for the Short-Doyle program. General Fund money for the Short-Doyle program is budgeted in Item 444-101-001(b) of the Budget Bill and should be limited to that source. Medi-Cal program General Fund loans to the Short-Doyle program could create, or add to, a deficiency in the Medi-Cal program. Such loans could also obscure fiscal problems within the Short-Doyle program which the Legislature should be aware of. If there is a serious federal fund deficiency in 1981–82 in the Short-Doyle/Medi-Cal program, the Legislature could, with the proposed language, directly address the question of whether or not it chooses to replace lost federal funds with state funds.

D. FISCAL INTERMEDIARY SERVICES
Item 426-101-001(d)

We recommend the Legislature delay action on the appropriation of $13,958,100 from the General Fund for support of the fiscal intermediary function (Item 426-101-001(d)) pending receipt and review of updated expenditure estimates in the spring. Such estimates should be submitted to the Legislature not later than April 15, 1981.

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The budget proposes an appropriation of $40,673,700 ($13,958,100 General Fund) for Medi-Cal claims processing activities in 1981–82. This is a decrease of $16,265,300 or 53.8 percent, below estimated current year expenditures. The General Fund amount proposed ($13,958,100) is based on preliminary expenditure estimates prepared by the department in December 1980. The cost to the General Fund of fiscal intermediary activities depends primarily on (1) the number of claims to be processed, (2) federal sharing ratios, (3) anticipated cost of reimbursable items such as postage, and (4) the cost of changes to the claims processing system itself.

The fiscal subcommittees normally delay action on an appropriation for the fiscal intermediary items until revised estimates of costs are available. We recommend that they do so. We believe, however, that these revised estimates should be submitted not later than April 15, 1981, rather than in May as part of the May revision to the Governor's Budget. This would permit legislative review of the issues involved in the fiscal intermediary items before June when many other matters require the subcommittees' attention.

Brief Overview: The New Contract

Between the inception of the Medi-Cal program in 1966 and 1980, the state contracted on a "no profit no loss" basis with the Blue Shield and Blue Cross organizations and Medi-Cal Intermediary Operations (MIO) as a fiscal intermediary for Medi-Cal claims processing services.

In September 1978, the state signed a competitively bid, five and one-half year contract with Computer Sciences Corporations (CSC) and initiated the transition to a new claims processing system. The new contract provides for a different method of payment based primarily on a fixed price per claim, rather than reimbursement of actual operating costs. The new contract also provides for state, rather than private ownership and control of the computer programs used to process claims. The contract has general performance standards, and liquidated damages provisions in the event of substandard performance. In addition the state has assumed substantially expanded responsibilities in the areas of (a) development of medical payment policy, (b) fraud detection and control, (c) recovery of money from insurance companies, (d) control over the master provider file, and (e) contract monitoring.

Overview of Fiscal Intermediary Funding (Item 426-100-001(d))

The Budget Bill contains the state and federal funds required for five different organizations involved in Medi-Cal claims processing. Table 35 shows these organizations and the funding levels proposed for each in 1981–82.

Table 35
Medi-Cal Claims Processing Costs
1981–82

	Total Funds	*General Fund*
Computer Sciences Corporation (CSC): Claims Processing	$36,159,000	$12,271,200
Medi-Cal Intermediary Operations (MIO): Residual Services	1,247,400	498,000
Blue Shield-Occidental Life: Medicare Crossover Claims	1,096,000	465,500
State Controller: Issuance of Warrants	2,159,800	718,300
State Treasurer: Warrant Redemption	11,500	5,100
	$40,673,700	$13,958,100

1980–81 Cost Increases

The estimated 1980–81 expenditures for both CSC and MIO are substantially more than originally anticipated by the Department of Health Services. There are two main reasons for this. First, a decision was made in the spring of 1980 to delay for 90 days the transfer of physicians claims from MIO processing to CSC processing while additional system improvements and testing of the CSC system were carried out. This decision required the expenditure of an additional $7,342,700 ($2,555,300 General Fund) for extended MIO claims processing activities. In addition, the 1980 Budget Act appropriated $2,461,000 ($246,100 General Fund) for CSC to use in defraying the cost of increased provider training and further system enhancements.

The second costly decision made in 1980 allowed physicians to continue submitting bills on the MIO billing form, known as the Uniform Claim Form (UCF). The decision to continue use of the UCF form increased 1980–81 expenditures by $6,140,500 ($3,404,200 General Fund). In total these two decisions added $15,917,750 ($6,205,600 General Fund) to the 1980–81 Budget Act.

1980–81 Deficits

Even though the estimated costs of the two actions discussed above were provided for in the 1980 Budget Act, a deficit is, nevertheless, anticipated in both MIO and CSC operations in the current year. The MIO estimated General Fund deficit of $828,200 reflects (1) the department's intention to sign a proposed contract costing $1,580,000 ($632,000 General Fund) for record retention and expert witnesses, (2) the extension of some claims processing activities beyond budgeted dates, and (3) unanticipated MIO termination costs.

The CSC is estimated to have a General Fund deficit of $4,259,200 in 1980–81, which is caused principally by changed budgetary assumptions about the availability of federal matching funds. The Budget Act assumed that the federal government would certify the new system for 75 percent federal fiscal participation with respect to drug, nursing home, and hospital claims in 1980–81. The new system, however, has not yet passed the federal on-site review related to drug and nursing home claims. The department anticipates that the needed corrections can be made in time for certification by February 1981. No on-site review has yet taken place with respect to hospital or medical claims.

Table 36 shows the fiscal effect of not having the CSC system certified for 75 percent federal fiscal participation. For each day the system is not certified, the cost to the General Fund is approximately $20,900.

Table 36
Computer Sciences Corporation Contract
Impact of "Noncertification" and
Reduced Federal Fiscal Participation

	Annual General Fund Cost
Drug	$1,700,000
Nursing Home	57,000
Hospital	2,057,000
Physician/Supplier	3,818,000
	$7,632,000

During legislative hearings on the 1981–82 budget, the department and CSC representatives should be prepared to discuss the following matters regarding federal certification:

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a. Why the state has waited so long to invite the federal certification teams to perform reviews;
b. How the department's record in fulfilling its certification responsibilities affects CSC's fiscal liability;
c. What the department's view is regarding CSC's fiscal responsibility for lost federal funds;
d. What the prospects are for securing 75 percent federal funding retroactively to the beginning of each claim type; and
e. When on-site visits will be scheduled for hospital and medical claims.

1980–81 Change Orders

The budget assumes that $9,402,500 ($3,898,900 General Fund) will be expended on four modifications to the CSC claims processing system in 1980–81. The cost of these "change orders" is shown in Table 37.

Table 37
Estimated 1980–81 Expenditures for CSC Change Orders

	Total Funds	*General Fund*
Label Review Change Order	$341,000 [a]	$189,300
UCF Change Order	6,140,500 [a]	3,408,000
Enhancement Change Order	2,461,000	246,100
Other Unspecified Change Orders	100,000	55,500
	$9,042,500	$3,898,900

[a] Preliminary estimate which could change substantially.
[b] This estimate of $6,140,500 could change as negotiations on price are finalized.

Label Review

The label review change order, if implemented, would require CSC to inspect claims to verify that a Medi-Cal proof-of-eligibility (POE) label was present on each claim. Claims submitted without such labels would be denied payment. Currently, claims without labels can be paid if CSC computers can verify that the patient was actually eligible for Medi-Cal at the time the service was rendered. The department estimates that approximately $21,200,000 ($11,800,000 General Fund) in claims would be returned unpaid each year if CSC began checking for the presence of labels. An unknown percentage of these claims would be resubmitted and paid at a later time after the provider had obtained a label from the patient.

Funds to implement the label review change order were included in the 1979 and 1980 Budget Acts. This change order, however, has not been implemented due to (1) concern about the inequity of label review, (2) uncertainty about the amount of savings that would result from the use of labels, and (3) probable negative reaction from providers. The department should be prepared to discuss at the budget hearings how rapidly it intends to move forward with the label review change order.

Problems with the UCF Change Order

The CSC has not yet received payment for the Uniform Claims Form (UCF) change order, even though it has incurred substantial additional operating costs as a result of the state's decision to allow physicians the option of using the UCF form. The department acknowledges it is obligated to reimburse CSC for the additional workload, but has not reached an agreement with CSC regarding

proposed fees and profit margins. The department is now auditing CSC to determine the reasonableness of CSC's pricing assumptions. The amount shown in the December estimates for the UCF change order, $6,140,500 ($3,408,000 General Fund), may or may not be a reliable estimate of the eventual negotiated price.

The Director of Health Services recently noted in prepared remarks to the Little Hoover Commission that the UCF change order may well be the last instance in which CSC will undertake additional work or a system change without a signed agreement as to price. This may mean that the state's ability to secure *timely* improvements to the claims processing system will be restricted.

The Enhancement Change Order

When the decision was made in the spring of 1980 to delay by 90 days the transfer of physicians claims to CSC, the department agreed to pay CSC "not more than $2,461,000" for enhanced provider training, and certain vaguely defined changes that would improve claims processing and management capabilities. The payments were to be made in accordance with a mutually acceptable work plan with a task breakdown. One of the major impediments to implementation of this change order is funding. The 1980 Budget Act assumed that the federal government would pay 90 percent of the costs. The Department of Finance, however, has not received an enhancement change order which would clearly quality for 90 percent federal reimbursement.

Changes in the 1981–82 Funding Proposal

Table 38 compares 1980–81 estimated expenditures with the 1981–82 funding request. The major changes shown in this table are as follows:

The CSC General Fund expenditures for ongoing claims processing activities.

- CSC General Fund Expenditures for ongoing claims processing activities are projected to decline by $8,156,300, or 41.5 percent, in 1981–82. The reason for this reduction in General Fund expenditures is the assumption that the federal government is going to certify the entire CSC system for 75 percent federal matching in 1981–82. (Currently, the federal government provides only 50 percent matching.) This assumption is optimistic and should be reviewed when the revised funding proposal is submitted in April. The federal government might refuse to certify the CSC system for 75 percent federal fiscal participation if rendering providers are not identified on the claim forms. Physicians who are in group practice are opposed to placing the rendering provider's number rather than the group's number on the form. The Legislature adopted language in the 1980 Budget Act which requires the department to design and implement a form which is optically scannable and which collects sufficient data to permit medical claims to be certified for maximum federal fiscal participation.
- The budget assumes there will be an 80 percent reduction in the cost of change orders in 1981–82. This assumption may also be optimistic. The budget projects that new physician forms will require a change order costing only $500,000 ($277,500 General Fund). This figure, however, does not include the cost of diagnosis coding. If CSC, rather than physicians, must continue to code diagnosis, then the coding will cost $5,000,000, according to the department's preliminary estimate. The General Fund share could range from $1,700,000 to $2,800,000, depending on federal sharing ratios for physicians claims.

During the budget hearings the department should be prepared to describe (1) what decisions have been made regarding changes in the physician billing forms, (2) how much the decisions will cost, (3) what level of federal fiscal participation is available, and (4) what implementation problems, if any, are anticipated.

Table 38
Fiscal Intermediary Services
Comparison of 1980–81 to 1981–82 Expenditures

	1980–81 (Dec. Estimate)		1981–82 Proposed		Changes		General Fund Percent Change
	Total Funds	General Fund	Total Funds	General Fund	Total Funds	General Fund	
A. Computer Sciences Corporation							
1. Operations							
Fixed Price per Claim Processed	$24,806,800	$13,767,800	$26,110,000	$8,681,600	$1,303,200	−$5,086,200	−36.9%
Cost Reimbursement Items	10,211,600	5,667,400	8,405,300	2,794,800	−1,806,300	−2,872,600	−50.7
Hourly Reimbursements	26,800	14,900	28,200	9,400	1,400	−5,500	−36.9
Design, Develop, Installation and Withholds	1,920,000	192,000	-	-	−1,920,000	−192,000	NA
Operations Subtotal	$36,965,200	$19,642,100	$34,543,500	$11,485,800	−$2,421,700	−$8,156,300	−41.5%
2. Change Orders							
Label Review Change Order	$341,000	$189,300	615,500	$341,600	$274,500	$152,300	80.4%
UCF Change Order	6,140,500	3,408,000	-	-	−6,140,500	−3,408,000	NA
New Form Change Order	-	-	500,000	277,500	500,000	277,500	NA
Enhancement Change Order	2,461,000	246,100	-	-	−2,461,000	−246,100	NA
Other Unspecified Change Order	100,000	55,500	500,000	166,300	400,000	110,800	200
Change Order Subtotal	$9,042,500	$3,898,900	$1,615,500	$785,400	−$7,427,000	−$3,113,500	−79.8%
3. Liquidated Damages	−$229,500	−$127,400	-	-	$229,500	$127,400	NA
CSC Total	$45,778,200	$23,413,600	$36,159,000	$12,271,200	−$9,619,200	−$11,142,400	−47.6%
B. MIO Contracts							
1. Claims Processing and Termination Cost	$11,918,205	$4,360,590	—	—	−$11,918,205	−$4,360,590	NA
2. Record Retention/Expert Witness Contract	1,583,995	632,410	1,247,000	498,000	−336,595	−134,595	−21.3
MIO Total	$13,502,200	$4,993,000	$1,247,400	$498,000	−$12,254,800	−$4,495,000	−90.0%
C. Controller's Office							
1. Warrant Issuance	$1,871,400	$1,038,600	$2,159,800	$718,300	$288,400	$320,300	30.8%
D. Treasurers Office							
1. Warrant Redemption	$11,500	$5,100	$11,500	$5,100	—	—	—
E. Medicare Crossover Claims Contracts (Blue Shield and Occidential Life)							
1. Design, Development and Installation of Cross-over Claims System	$354,900	$117,500	—	—	−$354,900	−$177,500	NA
2. Operations	1,191,200	595,600	1,096,000	465,500	−95,200	−130,100	−21.8
Crossover Subtotal	1,546,100	773,100	1,096,000	465,500	−450,100	−370,600	−39.8%
Grand Total	$62,709,400	$28,997,600	$40,673,700	$13,958,100	−$22,035,700	−$16,265,300	−53.8%

Budget Bill Language

We recommend that language similar to that added by the Legislature to the 1980 Budget Act be included in the fiscal intermediary item for 1981–82.

The Budget Bill does not include language which was added by the Legislature in the 1980 Budget Act. The 1980 Budget Act language rquired that:

a. At least 30 days prior notice be given to the Legislature before CSC change orders costing $250,000 or more are implemented.
b. The Legislature be notified if there are actual or potential changes in the availability of federal funding for CSC operations.
c. The last quarter of funding for CSC be encumbered no sooner than 30 days after written notice has been given to the Legislature.
d. The department develop a scannable physician/supplier claims form which qualifies for maximum federal fiscal participation, and report to the Legislature by certain dates.

We recommend the following Budget Bill language because (a) it is appropriate for the Legislature to have the opportunity to review major changes to the CSC system (b) the Legislature should be made aware of changes in available federal funding and (c) the new physician/supplier claims form should be optically scannable to reduce processing costs and should be eligible for maximum federal participation in order to reduce state expenditures. The proposed language is:

"Provided, that change orders to the fiscal intermediary contract for amounts exceeding $250,000 shall be approved by the Department of Finance not sooner than 30 days after written notification of the change order to the chairman of the committee in each house which considers appropriations, the chairman of the committee in each house which considers bills relating to public health and welfare, and the Chairman of the Joint Legislative Budget Committee, or not sooner than such lesser time as the Chairman of the Joint Legislative Budget Committee, or his designee, may designate.

"Provided further, that if there are changes or potential changes in federal funding the Department of Finance shall provide timely written notification of such changes to the chairman of the committee in each house which considers appropriations and the Chairman of the Joint Legislative Budget Committee. Such notification shall include proposed corrective action, including an implementation schedule and when the potential or actual change represents a decrease in federal funding.

"Provided further, that the Department of Health Servics shall require Computer Sciences Corporation to utilize a physicians/supplier claims form which will be optically scannable and which will collect sufficient data to permit the fiscal intermediary's medical claims processing system to be certified for maximum federal fiscal participation."

CSC's Claims Processing Performance

The state's contract with CSC provides that the "average" claim must be procssed through to payment or denial within a certain number of days. In order to determine if CSC processed claims within contractual time limits, the Office of the Auditor General contracted with the firm of Coopers and Lybrand to independently compute CSC average claims processing times. The Coopers and Lybrand report was released in January 1981.

The state's contract with CSC is not explicit in describing how performance times are to be calculated. Consequently, the Coopers and Lybrand report uses three different interpretations to calculate averages—the CSC interpretation, the department's interpretation and the Auditor General's "literal reading" of contract wording. The CSC interpretation includes in the averages only original

DEPARTMENT OF HEALTH SERVICES—Continued

claims that remain entirely under its control and do not go to medical review. The department's interpretation includes all claims but excludes from the averages the number of days the claims were outside CSC control. The literal reading includes all days of procssing time from receipt to final adjudications. The literal reading does not exclude from the averages the time periods in which the claims were outside of CSC's or the department's control.

In its response to the Coopers and Lybrand report the department stated that the literal interpretation does not provide a reasonable and accurate representation of CSC's performance, that it provides an inflated view of processing time, and is not necessarily legally supportable.

Average Processing Time Data

Table 39 compares the claims procssing times required by the contract to the actual averages, using each of the three interpretations discussed above. The averages shown on the table are for the entire five month period June through October 1980 reviewed in the Coopers-Lybrand report. An asterisk after a number indicates an average failed to meet a contract requirement.

Table 39
CSC Average Claims Processing Times
Five Month Average for Months
of June through October 1980

	Contractual Requirement (days)	*CSC Interpretation (days)*	*Department's Interpretation (days)*	*"Literal" Interpretation (days)*
Pharmacy	17	10.5	11.3	12.6
Nursing Home	8	8.6 *	8.1 *	9.1 *
Hospital Inpatient	21	16.0	18.3	22.0 *
Hospital Outpatient	13	11.3	12.1	13.1 *
Physician	25	10.2	10.4	10.7
Vision	25	10.6	11.1	12.3
Claims in Medical Review	30	35.7 *	35.0 *	37.0 *
All Claims	18	10.7	12.2	13.3

* Average processing time exceeds the contract standard.

Table 40 shows average processing times for the most recent month reviewed in the Coopers and Lybrand report, October 1980. By October only the processing time for claims in medical review was in excess of the contract standard. That particular claim type was a consistent problem in all five months of the study under all interpretations.

Table 40
CSC Average Claims Processing Times October 1980

	Contractual Requirement (days)	*CSC Interpretation (days)*	*Department's Interpretation (days)*	*"Literal" Interpretation (days)*
Pharmacy	17	12.6	12.9	13.8
Nursing Home	8	4.7	5.1	6.2
Hospital Inpatient	21	12.8	15.9	20.7
Hospital Outpatient	13	8.4	9.2	10.5
Physician	25	8.7	9.0	9.5
Vision	25	11.1	11.7	13.5
Claims in Medical Review	30	40.8 *	39.3 *	40.8 *
All Claims	18	9.7	11.1	11.9

* Average processing time exceeded the contract standard.

During the five month period between June and October 1980, CSC added physician and eye care claims, which greatly increased the volume of incoming claims. In spite of the additional claims volume, average processing generally improved during the period reviewed. The Coopers and Lybrand report indicates that CSC performance in the July–October 1980 period represents a distinct improvement over the contractor's performance during the period June 1979 through February 1980, which was reviewed in the Auditor General's first study of CSC.

Aging of Claims

The state's contract with CSC provides not more than 9 percent of total claims should be in processing for more than 30 days. Again the contract does not specify how the calculation is to be made. Table 41 shows the percent of claims over 30 days old during various months. Under CSC's interpretation of the contract requirements, the percentage of claims was within the contract tolerance in each month. Under the department's interpretation, CSC exceeded the nine percent standard in June and July but met the standard thereafter. Under the literal interpretation, CSC failed to meet the nine percent standard in each of the five months.

Table 41
Percentage of Claims in Inventory More than 30 Days

Month	*CSC Interpretation*	*Department's Interpretation*	*Literal Reading*
June 1980	5.1%	12.4% *	14.6 to 38.2% *
July	6.3	11.9 *	12.4 to 33.8 *
August	2.9	6.3	11.0 to 18.4 *
September	2.8	7.1	13.6 to 20.0 *
October	5.8	5.4	11.0 to 20.4 *

* Average exceeded the nine percent contract standard.

Auditor General's Findings

On January 8, 1981, the Auditor General issued a report on the adequacy of the department's efforts to monitor its contract with CSC. The report's major findings were:

- The department has not adequately planned a complete system for monitoring CSC.
- The department has not sufficiently monitored CSC's claims processing accuracy.
- The department has not designed or implemented methods to independently review CSC performance.
- The department has not obtained complete access to CSC's worksites, system documentation or records.
- The department has underestimated the number of staff necessary to monitor CSC and an insufficient number of staff have been allocated to conduct critical monitoring functions.

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Auditor General Recommendations

The Auditor General's report contained four recommendations which have a direct bearing on the 1981–82 budget. The report recommends that the department:

1. "Plan and implement a comprehensive monitoring system. The plan should include all monitoring provisions required by the contract, particularly the request for technical proposal, and those required by federal regulations to ensure maximum federal funding. The plan also should structure priorities to enable the department to assign staff resources to adequately monitor the accuracy as well as the timeliness of claims processing."
2. "Identify the staff resources necessary to implement the comprehensive monitoring system recommended above. The department should assess the overall number of positions budgeted for the Fiscal Intermediary Management Branch, their allocation and distribution, and staff workload based upon total contract management activities, and request additional positions if necessary. The department should control staff workload by centralized review, ranking, and assignment of ad hoc requests."
3. "Actively recruit into the Fiscal Intermediary Management Branch personnel with electronic data processing backgrounds. Alternatively, the department should consider using independent contractors to design and install monitoring devices and to train staff to monitor technical areas of the contracts."
4. "Develop and implement methods to independently verify information from the CSC and to monitor the performance of the CSC. The department should test the accuracy of the CSC system by tracing live claims through it—this is the methodology adopted by the federal Health Care Financing Administration."

We recommend that the department be prepared at the budget hearings to discuss the number of positions, costs and timetables associated with complying with the Auditor General's recommendations. We further recommend that, if the administration intends to submit a formal request for additional position and funds, the supporting documentation be submitted to the Legislature not later than April 1, 1981.

Reprocurement of the Fiscal Intermediary Contract: Item 426-001-001

We withhold recommendation on $224,322 ($56,081 General Fund) for two positions and a consultant contract, pending receipt of additional written information from the department. We further recommend deletion of $274,500 ($68,625 General Fund) in contract funds, on the basis that appropriating these funds would limit the Legislature's ability to influence the direction of the reprocurement.

On February 29, 1984, the current contract with Computer Sciences Corporation will expire. The department is requesting two positions and $126,000 for a consultant contract so that it can explore the alternatives for Medi-Cal claims processing after February 1984. In addition the department requests that a reserve of $275,400 be established for purposes of planning and implementing the option selected after the initial study. This reserve would be used in the second half of 1981–82. The total cost of this proposal is $498,822 ($124,706 General Fund).

The options available to the state with regard to the basic claims processing function for the period after February 1984 appear to be:

1. Extend the existing CSC contract.
2. Have the state assume some or all of the claims processing functions now performed by the fiscal intermediary.
3. Issue another Request for Proposal (RFP) allowing interested firms to bid for the contract.

Under any of the three options, the claims processor, whether the state or a private corporation, would presumably operate the basic system developed by CSC and owned by the state.

First Phase Study. We concur with the department that careful evaluation of the available options should take place before a decision is made regarding Medi-Cal claims processing after February 1984. We also conclude that it is appropriate for a consulting firm to review the positive and negative features of each of the available options.

Before funds are appropriated for this phase of the reprocurement effort, we recommend that the fiscal subcommitees secure from the department, a written description outlining in detail (a) the options the consultant would be reviewing, (b) what data would be gathered, (c) how the consultant would be expected to approach the task, (d) when the initial report would be delivered, and (e) how the consultant will be selected. Pending receipt of this information, we withhold recommendation on two positions and contract funds for the initial study in the amount of $224,322.

Second Phase Study—Role of the Legislature. The proposal for the second phase would reserve $274,500 for work on the transition to whatever option is identified in the initial phase as being in the state's best interest. Although it is desirable to begin transition work as soon as feasible, the Legislature may be restricting its opportunity to influence the direction of the reprocurement by appropriating funds for the second phase at this time.

The Legislature has been consistently involved in attempts to improve the fiscal intermediary contract and the delivery of fiscal intermediary services. Legislative involvement goes back to the early 1970's, when extensive hearings were held prior to the appropriation of funds for the development of a prototype claims processing system, the Medi-Cal Management System, which was to be an alternative to the system operated by the Blue Cross-Blue Shield Consortium.

Given the shortcomings of the current contract and the problems of making the CSC system function to the satisfaction of all interested parties, we do not recommend that the Legislature fund the second phase work until it is clear what the broad outlines of the new system would be. The fiscal and policy questions involved in the second phase study would be of such a magnitude that the Legislature should be afforded the opportunity to study and play an active role in any decision involving the content of the second phase study. In addition, the funding requirements for the second phase could vary considerably, depending on the option to be implemented. Therefore, we recommend deletion of the second phase funding and suggest that such funds be appropriated by separate legislation, rather than by the Budget Act.

E. CHILD HEALTH AND DISABILITY PREVENTION
Item 426-101-001(c)

The Child Health and Disability Prevention (CHDP) program provides health assessments 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 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 health assessments include local health departments, school districts, and private physicians. The department

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provides overall program direction and funding.

Proposed Budget for the CHDP Program

The budget proposes $16,284,723 (all funds) in the CHDP item for local assistance. This is an increase of $385,710, or 2.4 percent, above estimated current year expenditures. General Fund expenditures are proposed to be $7,878,161, an increase of less than one percent above estimated current year expenditures.

The CHDP item includes health assessment costs for non Medi-Cal eligible children (screening for Medi-Cal eligible children is provided through the main Medi-Cal item) and allocations for local administrative costs. The health assessment cost portion of the CHDP item is proposed to be $4,075,081. This is a 10.4 percent increase over estimated current year expenditures, and is based on an estimated 85,000 health assessments. The local administrative allocation portion of the CHDP item is proposed to be $12,209,642. This is equal to the estimated current year expenditures.

The budget reflects (a) the implementation in January 1981 of a program for providing health assessments to low birth weight infants whose families meet CHDP income criteria, (b) minor adjustments in caseload and average cost per health assessment, and (c) reduction in the amount required from the General Fund due to increased federal matching for county administrative services.

The budget proposes $15,118,503 (all funds) in the main Medi-Cal item for screening Medi-Cal eligible children. This is an increase of $1,788,046, or 13.4 percent, over estimated current year expenditures. General Fund expenditures are proposed to be $7,559,919, an increase of 13.4 percent over estimated current year expenditures. The increases are due to projected caseload growth.

Federal Matching Funds Misestimated

We recommend deletion of $96,470 from the General Fund, with a corresponding increase in federal funds, due to miscalculation of available federal matching funds (Items 426-101-001 and 426-101-890).

The $12,209,642 proposed local administrative allocation consists of the following components:

- $5,586,425 ($2,120,188 General Fund, $3,466,237 federal funds) for the "CHDP allocation", which covers certain local costs.
- $4,211,870 ($1,301,468 General Fund, $2,910,402 federal funds) for the "EPSDT allocation" which covers local costs that relate only to certain federal requirements under the Medi-Cal program.
- $2,000,000 (federal funds) for the supplemental EPSDT program, under which counties can use their own funds to match federal funds.
- $343,800 (General Fund) for reimbursement to schools.
- $67,547 ($37,624 General Fund, $29,923 federal funds) for printing of forms.

The budget reflects a General Fund reduction of $383,000 in the CHDP allocation, with a corresponding federal fund increase, due to increased federal matching. Our analysis indicates two problems in the department's calculations:

1. The CHDP allocation figures for the current year which were used in the calculations include $180,000 in federal funds which were actually approved last year as part of the supplemental EPSDT program. To calculate the General Fund amount required, the department applied a factor of 37.4 percent not only to baseline program expenditures but also to the additional $180,000. Thus the department overestimated the amount required from the General Fund by 37.4 percent of $180,000, or $67,300.
2. Budgeted CHDP allocation expenditures include an additional $29,170 from

the General Fund, the need for which is not documented in the justification materials provided for our review.

Accordingly, we recommend deletion of the overbudgeted amounts, with a corresponding increase in federal funds. We also suggest that the department's detailed fiscal displays show the $180,000 as part of the supplemental program as it was originally approved, instead of as part of local administrative allocations.

Low Birth Weight Infants Program

We recommend deletion of $152,000 from the General Fund to correct for overbudgeting of the low birth weight infant program (Item 426-101-001).

The Legislature added $248,000 to the 1980–81 budget to provide health assessments to low birth weight (5.5 pounds or less) infants which meet CHDP income criteria. Medi-Cal eligible infants already receive health assessments. When the augmentation was being discussed by the Legislature, the department estimated that $248,000 would be an adequate amount to operate the program on an annualized basis. The estimate assumed that (a) there are 4,500 infants who would meet birth weight and income eligibility criteria, and (b) these infants would receive health assessments at a frequency and average cost per assessment which are typical of Medi-Cal-eligible infants. The department now proposes expenditures of $400,000 annually, but has not provided any data which justifies why the original forecast of $248,000 is no longer valid. We recommend deletion of the overbudgeted amount.

F. DEPARTMENTAL MEDI-CAL OPERATIONS
Item 426-001-001

The Health Care Policy and Standards Division, the Office of Organized Health Systems, and the Medi-Cal Division administer the Medi-Cal program. Most policy development functions are performed in the Health Care Policy and Standards Division, while most daily operations are performed in the Medi-Cal Division. The Office of Organized Health Systems manages prepaid health plans and pilot projects. Table 42 shows how positions are distributed among these units. It shows that the budget proposes a net increase of 96.7 positions, or 9.2 percent, above the current year.

Table 42
Positions [a] in Major Medi-Cal Units Excluding Administrative Overhead

	Authorized 1980–81	*Proposed 1981–82*	*Change*
Health Care Policy and Standards Division:			
Division Office	4.2	4.2	—
Medi-Cal Care Services Bureau	237.1	234.6	−2.5
Information and Planning Bureau	85.2	85.2	—
Total	326.5	324.0	−2.5
Medi-Cal Division:			
Division Office	5.2	5.2	—
Medi-Cal Operations Branch	567.3	642.0	74.7
Fiscal Intermediary Management Branch	104.1	104.1	—
Total	676.6	751.3	74.7
Office of Organized Health Systems:			
Division Office	1.0	1.0	—
Prepaid Health Branch	33.2	33.2	—
Program Innovation Branch	10.6	35.1	24.5
Total	44.8	69.3	24.5
Total Medi-Cal Operations	1,047.9	1,144.6	96.7

[a] Position counts do not reflect salary savings.

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The budget proposes $43,995,556 (total funds) for the units shown in Table 42. This is an increase of nine percent above estimated current year expenditures of $40,371,843. In 1981–82, expenditures for these units will total 42 percent of the department's operating budget. Total expenditures for Medi-Cal administration include the costs of the units shown in Table 42 plus expenditures for the Audits and Investigations, Administration, and Licensing and Certification divisions. The General Fund share of total Medi-Cal administration costs is budgeted at $37,292,549, an increase of 8.1 percent above estimated current year expenditures.

1. Cost Savings Proposals

The budget proposes 81.2 positions, at a cost of $2,317,274, for new or expanded programs which would, according to the department, result in estimated gross savings of $21,449,000 in 1981–82. Table 43 shows the distribution of these positions.

Table 43
Departmental Medi-Cal Operations
Cost Savings Budget Proposals

	Positions	*1981–82 Support Costs*	*Estimated 1981–82 Savings*
Hospital Utilization and Cost Control Proposals			
On-Site Ancillary Review	9.0	$367,328	$1,971,000
On-Site Extended Stay Review	13.2	410,638	2,685,000
Emergency Admissions Review	14.0	444,195	1,177,000
Cost Control Reimbursement Plan	3.0	81,908	–
CSC Ancillary Reviews	2.0	97,189	2,977,000
Subtotal	(41.2)	($1,401,258)	($8,810,000)
Medi-Cal Cost Recovery Proposals			
Health Insurance Recovery	8.5	149,677	3,967,000
Casualty Insurance Recovery	17.0	356,622	2,100,000
Medicare Buy-In	8.0	141,743	3,064,000
Subtotal	(33.5)	($648,042)	($9,131,000)
PHP Marketing by County Welfare Offices	3.0	$165,374	$3,119,000
Volume Drug Purchasing	3.5	102,600	389,000
Total Proposals	81.2	$2,317,274	$21,449,000

Hospital Utilization and Cost Control Proposals

The budget proposes 41.2 new positions at a cost of $1,401,258 ($540,016 General Fund) to strengthen the hospital utilization and cost control programs in order to save an estimated $8,810,000 ($5,827,000 General Fund).

On-Site Ancillary Reviews. The budget proposes the addition of nine positions in the Field Services Section, at a cost of $367,328 ($142,155 General Fund), to perform reviews of ancillary services provided to hospitalized Medi-Cal patients. The purpose of the reviews would be to detect unnecessary lab work, x-rays, physical therapy, intensive care and other non-routine services. The department proposes to select for review a small number of hospitals with abnormal ancillary profiles. On-site nurses would then examine the Medi-Cal patient's records and the detailed ancillary listing. Reimbursement for services on the detailed ancillary

listing which were not appropriate for the patient's medical condition would be denied, with the approval of a departmental consulting physician.

The department estimates that the nine positions (three doctors, five nurses and one clerical) could review 18,000 hospitalizations in 1981-82. The average cost per hospital stay is $1,933. It is assumed that, on the average, $150 in ancillary charges per hospitalization would be denied, for a savings of $1,971,000 ($1,317,000 General Fund). The net savings for 1981-82 is estimated to be $1,603,672 ($1,174,845 General Fund), once staff costs are deducted.

On-Site Reviews of Extended Hospital Stays. The budget proposes the addition of 13 nurses to the Field Services Section, at a cost of $410,638 ($142,134 General Fund), to perform on-site review of requests for extended hospital stays. Extra days of hospitalization are requested when a Medi-Cal patient requires more days of care than the department originally authorized. Requests for extended stays can either be reviewed in the department's field offices or in the hospital where the patient's records are available for review.

The department prefers on-site review of extension requests because more unnecessary days of hospitalization are discovered through these reviews. Departmental statistics indicate that when the nurses are able to review the patient's records at the hospital, reimbursement for 17 percent of the requested extended days is denied. When the request is reviewed in the field office without benefit of patient charts, the denial rate falls to 11 percent. A 17 percent denial rate results in the cost avoidance of $846,000 in hospital care per on-site nurse per year.

Even though the department prefers to review requests for extended stays at the hospital, it has gradually reduced on-site review by nurses because nurses are needed in the field offices to help process backlogs of other treatment authorization requests. The result of the reduction in on-site reviews is that 80 hospitals no longer receive on-site review of their extension requests.

The Department of Finance recently issued a report on the operation of the department's prior authorization system. One of the recommendations in the report was to augment the Field Services Section staff so that all requests for additional days of hospitalization would be reviewed on-site. The 13 additional on-site nurses are proposed for that purpose. The department estimates that reimbursement for 12,850 days of inpatient hospitalization will be denied, resulting in full year savings of $3,942,000 ($2,633,000 General Fund). The 1981-82 savings is estimated at $2,685,000 ($1,793,000 General Fund), due to the time lag involved in filling the positions. The cost of the 13 positions is $410,638 ($142,134 General Fund). Thus, the net 1981-82 savings is estimated at $2,224,362 ($1,650,866 General Fund) after staff costs are deducted.

Emergency Admissions Review. The budget proposes the addition of 14 new positions, at a cost of $444,195 ($173,235 General Fund), to review the medical necessity of "emergency" admissions to hospitals. Five existing positions would also be redirected for this purpose. Currently, the Field Services staff does not authorize hospital admissions of three days or less as long as the admitting physician certifies that it was an emergency situation and thus not subject to the prior authorization process.

Under the proposal, the additional on-site staff would review the medical necessity of keeping any hospital inpatient admitted on an emergency basis more than one day. Based on its experience with multi-disciplinary audits, the department believes that a significant number of non-emergency cases are being admitted under the current emergency admission procedures and are discharged within four days, thus avoiding a patient chart review by the Field Services Section's on-site nurses. The department estimates that approximately 87,000 emergency admissions (excluding normal child births) currently escape review by on-site nurses and that four percent of these admissions are not medically justified. If the

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four percent estimate is correct then approximately 5,200 days of hospital care could be avoided at an average cost of $451 per day, resulting in an annual savings of approximately $2,350,000 ($1,570,000 General Fund). This annual savings amounts to a nine-to-one cost benefit for the General Fund. The department estimates 1981-82 savings at $1,177,000 ($786,000 General Fund), due to delays in issuing new regulations and employing additional staff.

Cost Control Reimbursement Plan. The 1980-81 Budget Act authorized seven positions, three of them on a limited term basis, to develop and institute a hospital cost control plan. This plan will control increases in hospital costs and save $11,629,000 in 1981-82. The budget proposes continuation of the three limited term positions, at a cost of $81,908 ($44,640 General Fund), to extend the cost control plan to provide hospitals with fiscal incentives to reduce costs. This should produce additional savings.

CSC Ancillary Reviews. The budget proposes two new positions at a cost of $97,189 ($37,852 General Fund) to develop computerized prepayment controls to detect inappropriate claims for hospital ancillary services. The controls would operate in the following way. First, the department would, for various diagnoses, determine a normal range of ancillary services and the cost of those services. For example, the department would determine what drugs, lab work, special equipment and other services are normally billed for a tonsillectomy. Next, a computer program would be written to identify those ancillary charges that appear abnormal for the particular diagnosis. If a claim for ancillary services appeared to be questionable, it would be referred to CSC's medical review unit to determine its medical necessity. In many cases, the hospital would have to provide additional support documentation before the claim could be approved or denied.

A delay in the implementation of the prepayment controls described above is likely to occur because a substantial amount of development work must be done. In addition, the implementation of the program by CSC is subject to change order negotiations. In the past, such negotiations have not been completed in a timely manner. There is little reason to believe that they will be completed promptly in this case, especially if it is unclear to CSC how many additional medical review positions would have to be employed to process the additional workload. The budget proposes no additional funds specifically for such a CSC change order. The budget, however, does contain $500,000 for unspecified CSC change orders, and these funds might be used for this purpose.

The budget estimates that hospitals will receive $1,647,729,830 from the Medi-Cal program for inpatient services in 1981–82, of which approximately 50 percent is estimated to be for ancillary charges. The department estimates that $2,977,000 ($1,931,000 General Fund) can be saved in 1981–82, by the ancillary review process. In full operation savings could range from $8,351,000 ($5,661,000 General Fund) to $12,508,000 ($7,917,000 General Fund) annually. The savings would depend largely on how tightly the screens were established and how many claims were referred to the medical review unit. A savings of $12,508,000 would be a 1.5 percent reduction in ancillary cost. The department should be prepared to discuss a specific plan for implementing this proposal at the budget hearings.

Medi-Cal Cost Recovery Proposals

We withhold recommendation on 17 positions for casualty insurance recoveries, pending receipt of the Auditor General's report on the department's casualty insurance recovery program.

The budget proposes the addition of 33.5 new positions (including 21 two-year limited term positions) to expand the department's program for recovering funds

from Medicare, health and casualty insurance companies. This constitutes an increase of 22 percent over the current year staffing level of 155.3 positions, and is estimated to save $9,131,000 ($6,370,515 General Fund) in 1981–82 at a cost of $648,042 ($304,888 General Fund). The proposal includes:

- 17 positions to bill casualty insurance companies for services provided by Medi-Cal that are liabilities of such companies. Because Medi-Cal is legally the health care provider of last resort, recipients must use their casualty insurance policies before using Medi-Cal, and the state may bill casualty insurance companies for services these companies should have paid for. The Auditor General is preparing a report on this program, and we withhold recommendation on this part of the proposal pending a review of the report.
- 8.5 positions to bill health insurance companies for services that are liabilities of such companies.
- eight positions to buy federally funded Medicare health insurance for those Medi-Cal recipients who qualify. Since the cost of the insurance premiums is less than the cost of a Medi-Cal reimbursement for medical services, this will result in a net General Fund savings.

The 8.5 positions for health insurance recoveries and the eight positions requested to buy into Medicare would generate $7,031,000 ($5,226,015 General Fund) in additional savings, at a cost of $291,420 ($126,597 General Fund).

PHP Marketing by County Welfare Offices

We recommend deletion of three positions and $165,374 ($90,003 General Fund in Item 426-001-001 and $75,371 federal funds in Item 426-001-890) because of inadequate workload justification.

The budget proposes three new positions and $2,423,736 ($1,224,787 General Fund) to implement a program whereby county eligibility workers would provide information to individuals on both prepaid health plans (PHP's) and fee-for-service health care during the eligibility determination process.

Effective December 31, 1980, state law prohibits door-to-door marketing of PHP's. State law also mandates that the department develop a program to implement county PHP marketing by December 31, 1981. The 1980 Budget Act provides funds for three current year positions for this purpose. They have started to develop the procedures that county welfare offices will follow, and to train county welfare office staff. The program will operate in 14 counties where a PHP is available to Medi-Cal clients.

Table 45 shows the costs and estimated savings that will result from this program in 1980–81 and 1981–82.

Table 45
Costs and Savings of Marketing PHP's by County Welfare Offices

	1980–82	*1981–82*
Costs:		
State Operations	$213,137	$292,054
County Administration	287,403	2,131,682
Total Costs	$500,540	$2,423,736
Savings:		
Decreased Marketing Costs	$1,596,000	$2,958,000
Shift from Fee-for-Service to PHP's	−250,000	161,000
Total Savings	$1,346,000	$3,119,000
Net Savings	$845,460	$695,264

The department estimates that when PHP marketing is fully implemented in

DEPARTMENT OF HEALTH SERVICES—Continued

1981–82 net savings of $695,264 will result. The state will incur costs to support the additional staff as well as to reimburse the counties for having eligibility workers inform Medi-Cal clients of the fee for service and PHP options. Medi-Cal program costs will decrease by more than this amount, however, because (1) marketing PHP enrollment through county welfare offices costs less than soliciting PHP enrollment door-to-door, and (2) the cost to the state of a Medi-Cal recipient enrolled in a PHP has historically been less than the cost of fee for service medical care.

Augmentation Request. The budget proposes three additional positions to implement the program in the budget year. We conclude that they are not necessary for the following reasons.

- Three positions were approved for the current year to implement this project and the department has not adequately justified three additional positions.
- State law mandates that counties inform Medi-Cal recipients of the PHP option at the time of eligibility determination. For 1981–82, $2,131,682 is budgeted for this purpose in the county administration expense item.
- Other county administration projects normally are implemented by the existing county liaison staff. The department's approach in this case is a marked departure from past practice, since it would assign staff to act as liaison to counties for a specific project. The proposal does not adequately justify this new procedure.

On this basis, we are unable to justify the need for three new positions, and therefore recommend that they be deleted, for a savings of $165,374.

Volume Drug Purchasing

The budget proposes 3.5 additional positions at a cost of $102,600 ($55,917 General Fund) to implement a drug price rebate pilot project. The department proposes to use the substantial purchasing power of the Medi-Cal program to secure drugs at a price that is lower than what pharmacists charge.

Approximately ten high volume drugs made by several different manufacturers would be competitively bid. The manufacturer offering the best rebate to the state would be selected to supply drugs to the program. The department would then inform pharmacists that the Medi-Cal program will reimburse them for the ten selected drugs only if their claims showed that the drug was made by the selected manufacturer. Each quarter, the selected manufacturer would rebate to the state a specified amount, based on the quantity of a particular product sold. The department indicates it will ask the federal Food and Drug Administration to supply information about the ability of a particular manufacturer to supply a high quality product in the quantities used by the Medi-Cal program.

The pilot project should not be disruptive because pharmacists would continue to buy from existing wholesale suppliers, and the Medi-Cal program would continue to reimburse them for their wholesale drug costs. Some pharmacists would have to change brand names on selected drugs, but they would otherwise be unaffected. Physicians with patients who could not tolerate a particular product could prescribe other brands provided prior authorization from the department is secured.

The Governor's Budget indicates that annual savings of $2,500,000 ($1,324,000 General Fund) is anticipated when the project is fully operational in 1982–83. This savings estimate assumes a 20 percent reduction in the net price of the ten drugs. In 1981–82 a savings of $389,000 ($212,005 General Fund) is anticipated on the assumption that the project will not be operational until April 1982.

2. Other Program Change Proposals

The budget proposes 75 new positions, at a cost of $3,305,295 ($1,201,221 General Fund) for functions other than those related to cost savings. Table 46 shows the distribution of these augmentation proposals among the units responsible for Medi-Cal administration.

Table 46
Departmental Medi-Cal Operations
Program Change Proposals
1981–82

	Number of Positions	*Total Funds*	*General Fund*
Health Care Policy and Standards Division:			
Medi-Cal Provider Participation Standards	2	$66,256	$26,171
Departmental Liaison with SPAN Project	4	120,678	65,770
Management Analysis Unit	4	redirect	redirect
County Eligibility Information Monitoring	2	66,891	35,456
Subtotal	(12)	($253,825)	($127,397)
Medi-Cal Operations Division:			
Short-Doyle Compliance	10	$631,686	$233,724
Fiscal Intermediary Reprocurement	2	498,822	124,706
Subtotal	(12)	($1,130,508)	($358,430)
Office of Organized Health Systems:			
PHP Quality Assurance Monitoring	6	$396,356	$39,636
CDS Contract Monitoring	10	352,804	192,278
County PHP Expansion	5	183,574	100,048
Subtotal	(21)	($932,734)	($331,962)
AB 1414 Positions for CSC Contract Monitoring	30	$988,228	$383,432
Total	75	$3,305,295	$1,201,221

Management Analysis Unit

We recommend deletion of four positions and $124,099 proposed to undertake management analysis projects in Item 426-001-001. Our analysis indicates that the department does not need new positions to undertake these projects.

The budget proposes two management analyst positions, one supervisor and one clerical position in the Program Analysis Branch at a cost of $124,099 in 1981–82. Support for these positions would come from redirected contract funds. The branch currently has two existing management analyst positions. These positions, together with the additional positions, would form a "management analysis unit" within the branch, and would enable the department to complete several projects which could not be completed by the existing two positions.

Our analysis indicates that:

1. The department has two additional management analysts in the Administration Division who should be able to conduct the kind of studies cited in the department's proposal.

2. Several projects could be completed if the department were to reclassify and fill vacancies in the Program Analysis Branch. In 1979–80, the branch had an average of 6.4 professional and three clerical positions vacant during the year, and in July, August, October and November of the current year an average of 5.7 professional and 2.3 clerical vacancies existed.

We recommend deletion of the four positions because the need for additional

DEPARTMENT OF HEALTH SERVICES—Continued

positions to complete various projects has not been established. Instead, we recommend that the Program Analysis Branch delegate some of its projects to the management analysts in the Administration division and reclassify or fill its vacant positions.

Provider Participation Standards

We recommend deletion of two new positions because of insufficient workload justification, for a General Fund savings of $26,171 in Item 426-001-001 and a savings of $40,805 in federal funds in Item 426-001-890.

The budget proposes two new positions for the Benefits Branch, at a cost of $66,256 ($26,171 General Fund). The positions would develop policy proposals for resolving certain issues related to provider participation in the Medi-Cal program. Specifically, the positions would:

1. Develop standards for determining which physicians could perform highly specialized procedures, such as bone marrow transplants or kidney transplants, for Medi-Cal patients.
2. Develop a method to "clean up" provider billing numbers. Currently, some physician groups have several billing numbers and some members within groups also have one or more individual billing numbers. This often makes it difficult to detect duplicate or fraudulent billings or to enforce the department's medical policies.
3. Develop procedures to insure that the program is not being billed twice for the same service. Private physicians are purchasing very expensive laser and radiology therapy equipment which was formerly available only in hospitals. The department is proposing to review utilization controls to assure that they are adequate, and to adopt procedures that will prevent both a hospital and a private physician from billing the program for the same service.

Lack of Workload Data. The department's written documentation supporting the request for two positions consists of a very general description of several problems the department would like to see resolved. No workload data is offered. No data was presented which indicates how long it might take to resolve these problems or how the department concluded that two positions are required for this effort. There is no rationale supporting the kind of positions being requested (a health planning analyst and a nurse). Finally, even though the support documentation refers to the workload for these positions as one time projects, the positions would not be established on a limited term basis.

It is possible that the Benefits Branch does not have enough staff to study problems facing the Medi-Cal program and to develop solutions to these problems. The need for additional staff, however, is not documented in the department's written material. No information is presented regarding the Benefits Branch's existing workload, priorities or staffing inadequacies. In the absence of any specific documentation on the need for additional staff, we recommend that the two positions be deleted.

County Eligibility Information Monitoring

The budget proposes three new Eligibility Branch positions at a cost of $66,891 ($35,456 General Fund) to identify and help correct computerized and hard copy data on Medi-Cal clients which the counties submit to the state. This data must be on time and must be properly coded to prevent:

1. untimely and inaccurate issuance of monthly Medi-Cal cards,
2. unnecessary suspension of claims at CSC which delays payment,
3. inaccurate statistical reporting.

The department indicates that the accuracy and timeliness of data submitted by the counties vary. Currently, there is no systematic method to review county data, to isolate problem areas, or to work with counties to correct problems. Since 1971, the department has attempted to deal with such deficiencies only when a critical problem became evident and had to be corrected. The inadequacy of this approach became clear when CSC began to suspend provider claims because county eligibility data was not up to date or was improperly coded.

Our analysis indicates that the department should implement a systemized approach to improving the quality and timeliness of county submission of eligibility data.

Dental Request for Proposal Positions

We recommend deletion of seven limited term positions because of the lack of justification, for a General Fund savings of $148,174 in Item 426-001-001 and a savings of $119,288 in federal funds in Item 426-001-890.

The 1980 Budget Act authorized seven limited term positions in the Fiscal Intermediary Management Branch to develop and issue a Request for Proposal (RFP) so that the dental fiscal intermediary contract could be competitively bid. The positions completed work on a draft RFP and have, according to the department, been redirected to other tasks.

The budget, proposes to establish the limited term positions as permanent positions without any justification submitted by the department.

In the absence of such justification, we recommend deletion of the seven positions.

Office of Organized Health Systems

The budget proposes 69.3 positions and $3,024,404 for the Office of Organized Health Systems, which manages the Medi-Cal program's contracts with prepaid health plans (PHP's) and develops alternatives to the fee for service health care delivery system. This is an increase of 24.5 proposed new positions, at a cost of $1,035,334, or 53 percent, above estimated current year expenditures. (We analyze the need for 3.5 of the 24.5 proposed new positions on page 801 of the Analysis). In addition to managing PHP contracts, this unit manages capitated, at risk contracts with (1) California Dental Services (CDS), which acts as the state's fiscal intermediary for Medi-Cal dental benefits, and (2) the Redwood Health Foundation (RHF), which acts as the state's fiscal intermediary for medical services in a three county area. Both CDS and RHF are pilot projects. Because the four year period allowable for pilot project status has run out, the CDS and RHF projects are operating on six month contract extensions.

The budget proposes to distribute 21 of the 24.5 new positions as follows:

- six positions, which are 90 percent federally funded, to establish a quality assurance system for PHP's.
- 10 positions to increase the state's monitoring of the CDS contract.
- five positions to expand the PHP program to include more county operated PHP's.

Increased Monitoring of the CDS Contract

We recommend deletion of $246,963 and seven positions because they would prematurely expand the contract monitoring program, for a savings of $134,595 in the General Fund in Item 426-001-001 and $112,368 in federal funds in Item 426-001-890.

The budget proposes 10 new positions (five limited term) at a cost of $352,804, ($192,278 General Fund) for increased monitoring of the department's contract with California Dental Services (CDS). The program would be increased from two to 12 positions.

DEPARTMENT OF HEALTH SERVICES—Continued

In return for a capitated payment, CDS processes claims for dental services provided to Medi-Cal beneficiaries, and assumes the risk for any costs that the fixed monthly payment may not cover.

Pilot Project Status. CDS has been processing claims on a pilot project basis and, because the four year period allowable for pilot projects expired in 1977, it is now operating on six month contract extensions with federal approval. State law authorizes such extensions in cases where:

- The department is not able to evaluate the pilot program before the conclusion of the project's maximum four year term, or,
- Having recommended implementation of the project on a permanent basis, the department is unable to implement the project by the end of its term.

In 1978, the department concluded that a contract with a capitated, at risk, fiscal intermediary would be the best way to continue the dental program on a permanent basis and recommended developing an RFP in order to subject the contract to competitive bidding. Although a draft of the RFP has been completed, the department has not proceeded with the procurement, preferring instead to monitor the problems with CSC before continuing work on the dental RFP. In addition, the department has not yet resolved a disagreement with the Department of Corporations as to whether the waiver of certain provisions of the Knox-Keene Act relating to the dental contract is warranted.

Augmentation Request. The department maintains that current staffing is not sufficient to comply with federal audit recommendations thereby jeopardizing federal funding for the contract.

The federal audit recommended that:

1. the department reconcile CDS's count of Medi-Cal eligibles with its own,
2. the procedure for developing CDS's capitation rates be documented,
3. the department follow up on cases of suspected provider abuse, and
4. criteria be developed to evaluate CDS's performance.

Analysis. Our analysis of the proposed workload indicates that three of the ten positions requested by the department would be sufficient to comply with the unimplemented federal audit recommendations. In addition, the budget proposes increased staffing for the Audits and Investigations Divison in 1981–82 in order to identify additional deficiencies that should be resolved in order to safeguard federal funding.

According to the department, the seven remaining positions are intended to (1) increase the department's knowledge of CDS's claims processing system, (2) improve the system to the extent possible, and (3) possibly upgrade the CDS claims processing system to meet federal standards, which would allow the state to receive 75 percent instead of 50 percent federal funding for contract administrative costs.

The department's proposal does not explain if, or how, it intends to convert CDS from its pilot project status to an ongoing permanent program. Until that decision is made, we do not recommend the establishment of the seven proposed positions because it seems premature to commit resources to learning about and improving a claims processing system that has pilot project status, and must be extended every six months. On this basis, we recommend that seven of the ten requested new positions be deleted for a savings of $246,963 ($134,595, General Fund and $112,368 federal funds).

County Operated PHP's

We recommend deletion of five positions and $183,574 to avoid a premature expansion county operated PHP's, for a savings of $100,048 General Fund in Item 426-001-001 and $83,526 federal funds in Item 426-001-890.

The budget proposes five positions to provide technical assistance to counties which desire to establish county-operated PHP's similar to the one in Contra Costa County.

Since 1974, Contra Costa County has been operating a PHP which has approximately 4,000 Medi-Cal enrollees. They receive outpatient services from county operated clinics, hospitalization at the county hospital and, when necessary, services from private sector specialists. The Medi-Cal program pays the county a capitated rate per enrollee which reflects actual costs.

Under the fee-for-service method of reimbursement, Medi-Cal pays a higher percentage of the costs for county inpatient services than it pays for county outpatient services. Under the PHP, Medi-Cal reimbursement of county outpatient services increases to reflect actual costs while the reimbursement level for county inpatient services remains the same. As a result, Contra Costa recovers from the Medi-Cal program a greater percentage of its health care costs under the PHP arrangement (86 percent in 1978–79) than under the fee-for-service arrangement (68 percent in 1978–79). For the state to save money as well, the county must attempt to reduce PHP enrollees' utilization of the more expensive inpatient services enough to offset the increased cost to the state of the outpatient services.

We have not seen any evidence indicating that Contra Costa County has reduced PHP enrollee utilization of hospital inpatient services. Until such evidence becomes available, we believe it is premature to provide additional state resources to expand this program.

The 1980 Budget Act appropriated $220,000 to fund contracts with counties for feasibility studies of county-operated PHP's. Those studies have not been completed. The Legislature should also have the opportunity to review the results of the feasibility studies before it commits additional resources to expand this program. For these reasons, we recommend the deletion of the five positions proposed to develop county operated PHP's, for a savings of $183,574.

3. AUDITS AND INVESTIGATIONS DIVISION

The Audits and Investigations Division is responsible for the integrity of the department's programs. The majority of its workload results from the Medi-Cal program. The budget proposes $15,734,721 for the division in 1981–82, which is an increase of 6.9 percent above estimated current year expenditures. The budget includes funding for 17 new positions, at a cost of $448,618 ($111,429 General Fund). These positions are distributed as follows:

- two positions to create permanent ongoing audit capacity for the California Dental Services (CDS) and Redwood Health Foundation (RHF) audits,
- two positions to generate county specific eligibility determination error rates so that any federal fiscal sanctions for exceeding error rate maximums could be passed on to the responsible counties,
- seven positions to increase the department's capacity to investigate suspected beneficiary fraud and abuse, and
- six positions funded from redirected local assistance funds to double the division's public health program audit capacity.

DEPARTMENT OF HEALTH SERVICES—Continued

Beneficiary Utilization Review Unit

The budget proposes seven new positions at a cost of $158,377 ($61,925 General Fund) to expand reviews of Medi-Cal recipients suspected of overutilizing pharmacy services or visits to physicians' offices.

Currently the department's Beneficiary Utilization Review Unit operates a program to prevent approximately 1,000 Medi-Cal recipients from obtaining drugs (codeine and percodan) which can be abused or illegally resold on the streets. The program functions as follows:

1. computers identify specific Medi-Cal patients who are obtaining what appears to be questionable amounts of drugs;
2. claims histories are obtained to determine if there appears to be a valid medical reason for the dosages the patient has obtained; and
3. if the medical necessity is questionable, the patient will be placed on restriction and will then have to have drug purchases approved in advance by the department. Such patients are recognizable to pharmacists because they have special red Medi-Cal cards. Pharmacists know they will not be paid unless prior authorization is secured from the department before the drug is dispensed. The present drug control effort is estimated to save $120 per restricted recipient per month in drug charges.

The budget proposes five positions to implement a system to control unnecessary and costly visits to physicians' offices. The proposed system would operate in much the same manner as that used to identify and restrict Medi-Cal recipients who overutilize pharmacy services. The department estimates that with five positions, it could restrict 75 Medi-Cal recipients per month who overutilize office visits. An estimated $250 in office visit charges would be avoided per patient per month. The department estimates that with start-up delays and an initially low caseload of restricted beneficiaries 1981–82 cost avoidance related to office visit restrictions would approximate $400,000. However, in 1982–83 when more cases are restricted, savings are estimated at $2,700,000.

The budget also requests two positions to review a backlog of approximately 9,000 recipients who may be obtaining excess drugs at Medi-Cal's expense. The department estimates the additional two positions could review 200 cases per month, and that they would result in restriction for 20 percent of the cases. It is further assumed that $120 per month would be saved in drug charges for each beneficiary placed on restriction, resulting in a cost avoidance of $358,000 in 1981–82 and a $691,000 cost avoidance in 1982–83 when a larger number of cases are on restriction.

Audits Branch Workload

We recommend that 12 positions be deleted from the Audits Branch to reflect a decline in workload, for a savings of $416,871, $230,946 General Fund in Item 426-001-001 and $185,925 federal funds in Item 426-001-890.

The department audits hospitals and nursing homes to ensure that the state does not pay more than its share of their costs. There are currently 39 auditors assigned to auditing nursing homes. Federal regulations require the state to field audit one third of the nursing homes participating in the Medi-Cal program annually, so that every nursing home will have been field audited at least once by January 1, 1981. After that date, federal regulations allow the department to field audit (1) a minimum of 15 percent, or 50 nursing homes, annually in each of two bed size classifications or (2) a statistically valid number of nursing homes. The remaining nursing homes must be desk audited. The department has not conducted a study

to determine how many nursing homes it would have to audit in 1981–82 to meet the second federal requirement.

Our analysis indicates that federal regulations require a maximum of 250 audits in 1981–82 pursuant to the first requirement. The Budget Act of 1980 provides for 370 audits in 1980–81. Since each auditor can field audit eight nursing homes annually, 31 auditors are required for the 1981–82 workload. We conclude that eight auditors (39 authorized positions less 31 required positions), two management and two clerical personnel can be deleted, leaving the department adequate staff to comply with federal regulations.

Adult Day Health Care Audits

We recommend that legislation be enacted to eliminate the department's mandate to conduct annual onsite fiscal audits of every Adult Day Health Care center, so that major cost increases can be avoided.

The department proposes funding for 2,000 hours of Adult Day Health Care center audit capacity in 1981–82. Under existing law, it is required to conduct annual onsite fiscal audits for each of these centers.

This workload will increase substantially as more centers are licensed and major future costs will result. The department's preliminary estimates show that the fully expanded Adult Day Health Care program would have 642 centers compared with the 57 centers that will exist in 1981–82.

Department staff informs us that these audits are probably not cost beneficial, and that existing regulations require Adult Day Health Care providers to submit to CPA audits annually. We see no need for duplicative audits of these centers, and we recommend that the statutory provision requiring annual, onsite fiscal audits of Adult Day Health Care centers be deleted.

4. ADMINISTRATIVE SERVICES

The administrative functions of the department are conducted by the Director's Office and the Administration Division.

The budget requests $38,222,519 for administrative activities in 1981–82, which is an increase of $2,645,163, or 7.4 percent above estimated current year expenditures. Of the amount proposed for administrative services, $32,534,339 is distributed to the public health and Medi-Cal programs on a pro rata basis. The balance of $5,688,180 is directly distributed to individual programs receiving identifiable administrative services.

Director's Office

The budget proposes 15.5 new positions, at a cost of $525,960 ($198,647 General Fund), for the Director's Office, to be distributed as follows:

- Four positions to meet increased workload in the Office of Legal Services,
- 6.5 positions in the Appeals Section to process multidiciplinary hospital audit appeals and 3.5 positions to process appeals resulting from Department of Alcohol and Drug Programs audits,
- 1.5 new and two redirected positions for a control unit to coordinate the resolution of accounting and legal issues arising from federal audits.

Multidisciplinary Hospital Audit Appeals

We recommend a change in statute to remove the fiscal incentive to appeal audit disallowances.

The budget proposes 6.5 positions, at a cost of $212,075 ($117,065 General Fund), to process appeals resulting from the department's multidiciplinary hospital audits. Multidisciplinary teams of medical professionals and auditors review (1) financial documentation and accounting practices and (2) hospital medical prac-

DEPARTMENT OF HEALTH SERVICES—Continued

tices, to ensure that hospitals do not bill the Medi-Cal program for unwarranted medical services and unreasonable costs. Hospitals may appeal the identified disallowances through two levels of administrative hearings.

Fiscal Incentive to Appeal. Current law and regulations provide a fiscal incentive for Medi-Cal providers to appeal disallowances identified by the department's audit program. If the provider files an audit appeal, regulations allow the department to recover the disallowed costs only after the second level hearing decision has been rendered. The appeals process normally takes one to two years and, in that period of time, state law allows the department to collect only seven percent interest on the amount that is ultimately recovered. With the current high level of interest rates, Medi-Cal providers can earn money by overbilling the program, paying the seven percent charge to the state and investing the disallowed amount in certificates of deposit or government securities which pay a higher rate of interest.

As long as there is a fiscal incentive for Medi-Cal providers to appeal audit disallowances, the department's appeals workload will increase. To eliminate this fiscal incentive, we recommend that legislation be enacted to change the currently mandated rate of interest on disallowances from a fixed seven percent to a variable rate equivalent to the marginal rate of interest received by the Pooled Money Investment Fund. This rate would more closely approximate the rate at which hospitals could borrow in the financial markets and would reduce their fiscal incentive to borrow from the state through the appeals process. By removing fiscal incentives to appeal audit disallowances, the state could cease loaning money to Medi-Cal providers for them to invest at a higher rate of interest elsewhere and avoid increased expenditures associated with processing audit appeals.

Alcohol and Drug Programs Audit Appeals

We recommend adoption of Budget Act language that would make 3.5 new positions available only if workload materializes.

The budget proposes 3.5 positions, at a cost of $156,330 funded by interagency agreement, to process appeals resulting from Department of Alcohol and Drug Programs audits. As we note in our analysis of the Department of Alcohol and Drug Programs' budget, the projected workload may not materialize (see Item 420-001-001). To prevent overbudgeting, in this event, we recommend adoption of Budget Act language which would allow the Department of Finance to approve positions only when an interagency agreement containing 1981–82 funding for these positions has been signed by both departments. The following language is consistent with our recommendations.

"Provided that no funds appropriated by this item shall be available for the purpose of processing appeals resulting from Department of Alcohol and Drug Program Audits. Three and one-half new positions may be established by the Department of Finance only if funding becomes available through a valid interagency agreement with the Department of Alcohol and Drug Programs."

Administration Division

The budget proposes 25 new positions for the Administration Division, at a cost of $690,609 ($279,326 General Fund), to be distributed as follows:

- Eight positions to meet increased workload in the Personnel Management branch,
- Three positions to meet increased accounting workload,
- Three positions, funded through redirection of existing resources, to meet increased Program Support Branch workload,

- Six positions to eliminate the backlog of unstaffed computer projects,
- Two limited term positions to do computer project feasibility studies,
- Six positions to meet increased administrative workload resulting from the proposed new program positions.

Computer Projects

We withhold recommendation on six positions and $284,187 ($82,414 General Fund and $201,773 federal funds), pending receipt of information on the kinds of projects and the costs and benefits that will result.

The budget proposes six positions, at a cost of $284,187 ($82,414 General Fund), to reduce the backlog of computer projects. It currently takes 12 months before the computer systems development unit can start work on a requested project. Six additional positions would enable the unit to reduce the average waiting time to eight months. The budget also proposes two limited term positions, at a cost of $64,111 ($19,664 General Fund), to conduct feasibility studies on large projects in six areas. The approval of the two limited term positions would result in feasibility studies containing project descriptions, costs and benefits, which the Legislature could then evaluate. Approval of the other six positions would enable the department to start more computer projects.

We cannot recommend approval of more computer projects without the information needed to determine whether existing projects as well as the proposed projects are worthwhile. Because, the proposal does not detail the costs and benefits that would result from an increased number of projects, we withhold recommendation until the department develops a list containing:

- a description of all the staffed and unstaffed projects assigned to the Systems Development Section as of November 1980,
- a description of the projects that would be undertaken if the six positions are approved,
- estimates of when those projects will be completed and when the systems will be in full operation,
- estimates of the cost of each project,
- estimates of the savings, if any, that will result from the projects and estimates of when those savings will result, and
- if savings will not result from a project, an explanation of why the project should be undertaken.

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY

Item 426-301 from the Special Account for Capital Outlay, General Fund — Budget p. HW 78

Requested 1981–82	$414,957
Recommended approval	$352,967
Recommended reduction	61,990

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY—Continued

ANALYSIS AND RECOMMENDATIONS

Autoclave Replacement

We recommend approval of Item 426-301-036(1) (a) for preliminary plans, working drawings and construction for replacement of autoclaves.

The budget proposes the appropriation of $146,200 under Item 426-301-036(1) (a) for phase III of a five-phase project to replace autoclaves. Autoclaves are steam sterilizers which are necessary for the preparation of equipment and reagents used in diagnostic tests to determine the presence of infectious disease agents. They are also used to render infectious test materials nonhazardous prior to disposal.

Appropriations for phases I and II of $318,100 and $240,850, respectively, were made in the two prior fiscal years with seven autoclaves being replaced in 1979–80 and three being replaced in 1980–81. Anticipated future costs for phases IV and V are $300,000 and $275,000 in 1982–83 and 1983–84, respectively.

The department proposes the replacement of one autoclave in 1981–82. The present equipment is 15 years old (operational life of 15–20 years) and it is becoming unserviceable because replacement parts for this older equipment are difficult to obtain. The proposed projects are necessary to ensure continued operation of the laboratories and we recommend approval.

Minor Capital Outlay

We recommend deletion of two projects, for a savings of $60,120, and we recommend a total reduction of $1,870 in four other projects.

Budget Item 426-301-036(1) (b) requests $268,757 for seven minor capital outlay projects. These projects are related to fire and life safety, energy conservation, handicapped accessibility and basic building improvements. Table 1 details the proposed projects.

Table 1
Department of Health Services
1981–82 Minor Capital Outlay

	Amount
Fire and Life Safety	$84,900
Handicap Accessibility—Regulation Compliance	33,132
Building Improvements—Electrical System	43,296
Energy Conservation—Electrical System	16,500
Building Improvements—Animal Care Section	31,284
Building Improvement—Animal Care Section	43,620
Energy Conservation—Insulation	16,025
Totals	$268,757

Energy Conservation. A project is proposed which will improve the existing electrical system at the Berkeley Laboratory Facility. This project will reduce power losses and thereby increase the capacity of the existing system. An anticipated savings of 2,600 KWHR per month is anticipated, which will result in a total yearly savings of $1,680. The total project cost is $16,500.

The discounted payback period for this project exceeds 25 years. This payback period, therefore, exceeds the useful life of this building, making the project uneconomic. Accordingly, we recommend deletion of this project.

Resurface Concrete Floors. A project is proposed to resurface the fourth floor of the infectious disease wing of the Berkeley laboratory with a floor covering

material. This floor is made of concrete and contains 5,700 square feet. The total project cost is $43,620.

Due to excessive wheel traffic and washings and the settling of the building, the floor is deteriorating, and is reaching a state where adequate cleaning and sanitizing is impossible.

We recommend deletion of this project. This is a maintenance item, not a capital outlay project. The department has budgeted $5,839,602 for facilities operations, and the project should be funded from this appropriation.

Inflation Adjustments. Costs for four projects have been inflated by 10 percent (to ENR 3619) to include the effects of future construction price increases. However, only an 8 percent inflationary increase (to ENR 3550) is justified. This will account for price increases to the start of the 1981–82 fiscal year. We, therefore, recommend a reduction of $1,870 to exclude 2 percent of unjustified cost increases.

Health and Welfare Agency

DEPARTMENT OF HEALTH SERVICES-REVERSION

Item 426 –495 from the General Fund — Budget p. HW 30

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

ANALYSIS AND RECOMMENDATIONS

We recommend that unencumbered local assistance funds from Chapter 1134, Statutes of 1980, not be reverted. We recommend approval of the request to revert department support funds (Section 2, Item 2 of the Act).

The budget proposes reversion of the unencumbered balances of 13 appropriations to the Department of Health Services. The funds would revert to the unappropriated surplus of the General Fund. The 13 appropriations are:

(a) Chapter 1499, Statutes of 1970, home dialysis training center
(b) Chapter 1212, Statutes of 1976, genetically handicapped
(c) Chapter 892, Statutes of 1978, infant medical dispatch
(d) Chapter 983, Statutes of 1978, sickle cell screening
(e) Chapter 1324, Statutes of 1978, hospice pilot projects
(f) Chapter 1386, Statutes of 1978, vital statistics
(g) Chapter 1427, Statutes of 1978, Medi-Cal reimbursement for developmentally disabled services
(h) Chapter 710, Statutes of 1979, repayment of emergency fund loan
(i) Chapter 1134, Statutes of 1979, dental disease
(j) Chapter 1141, Statutes of 1979, perinatal care
(k) Chapter 1155, Statutes of 1979, Huntington's disease
(l) Chapter 1156, Statutes of 1979, Medi-Cal benefits for working disabled
(m)Chapter 1197, Statutes of 1979, Medi-Cal dialysis program eligibility.

These reversions are proposed because either (a) funds for 1981-82 program costs are included in the Budget Bill or (b) the program established by the statute

DEPARTMENT OF HEALTH SERVICES-REVERSION—Continued

was limited-term in nature and has been phased out.

We recommend that each of the proposed reversions be approved, with the exception of the local assistance portion of Chapter 1134, Statutes of 1980.

Chapter 1134 established a dental disease prevention program for school children in kindergarten through the sixth grade. The act appropriated $2.1 million without regard to fiscal year, including $140,000 for department support, $60,000 for Department of Education support and $1.9 million for local assistance. The act specified that the program shall be established in kindergarten through third grade in 1980-81, with fourth, fifth and sixth grades added one year at a time. Projected costs when all grades (K-6) are included exceed $6.5 million per year, if all health departments and school districts in the state choose to participate.

The department anticipates that it will spend approximately $1.3 million of the initial $1.9 million local assistance appropriation in the current year. The budget proposes expenditures of $1.5 million in 1981-82, to allow additional schools to participate in the program. (The budget does not contain funds for expansion of the program to the fourth grade in 1981-82, as authorized by the act.) The proposed expenditures of $1.5 million include $600,000 from Chapter 1134, and $900,000 from the Budget Act. Reversion of the Chapter 1134 funds would cause a significant reduction in program services and would be inconsistent with schedules in the Governor's Budget. We recommend that the reversion language apply only to the department support appropriation, which is in Section 2, Item 2 of the act.

Additional Reversions

We recommend reversion of the unencumbered balances of three additional appropriations.

The appropriations and our reasons for recommending reversion are provided below:

1. Chapter 1097, Statutes of 1979, hazardous waste transport. These funds were intended to support development of hazardous waste transportation regulations. The budget includes funds for this function in 1981-82.
2. Chapter 1186, Statutes of 1979, clinics operating grants. These funds are for operating grants to clinics and program administration. The budget includes funds to continue the program.
3. Chapter 1161, Statutes of 1980, hazardous waste land use controls. These funds were to support development of the hazardous waste land use regulations. The budget includes funds for this function in 1981-82.

Health and Welfare Agency

DEPARTMENT OF DEVELOPMENTAL SERVICES

Item 430 from the General Fund — Budget p. HW 79

Requested 1981–82	$527,890,550
Estimated 1980–81	524,133,332
Actual 1979–80	446,634,338
Requested increase (excluding amount for salary increases) $3,757,218 (+0.7 percent)	
Total recommended reduction	$4,939,242
Total recommendations Pending	$170,770,076

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
430-001-001	State Operations	General	15,547,586
430-001-172	State Operations	Developmental Disabilities Program Development	152,648
430-011-001	State Hospital Support	General	0
430-101-001	Local Assistance	General	509,577,398
430-101-172	Local Assistance	Developmental Disabilities Program Development	2,064,918
	Prior Balance Available, Budget Act of 1980		548,000
	Total		$527,890,550

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

GENERAL PROGRAM STATEMENT

The Department of Developmental Services (DDS) administers community and hospital based services for persons with developmental disabilities. The Lanterman Developmental Disabilities Services Act defines a developmental disability as a disability originating before the age of 18, which is expected to continue indefinitely, and which constitutes a substantial handicap. Such disabilities may be attributable to mental retardation, cerebral palsy, epilepsy, autism or to neurologically handicapping conditions closely related to mental retardation or requiring services similar to those provided for mentally retarded persons.

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 division administers four program elements:

a. The *21 regional centers* are operated statewide by private nonprofit corporations under contract with the department and provide a variety of services, including (a) intake and diagnosis, (b) genetic and family counseling, (c) development of individual program plans, (d) advocacy, (e) referral to and purchase of needed residential and nonresidential services, (f) monitoring of client progress and (g) developmental disabilities prevention services.

b. The *Community Operations Branch* is responsible for negotiating and processing contracts between the department and the regional centers, establishing and implementing administrative manuals governing regional center operations, and setting reimbursement rates for service vendors.

c. The *Community Monitoring Branch* monitors regional centers for legal and contract compliance and the quality of the services provided.

d. The *Community Care and Development Branch* administers the Program Development Fund, which provides start-up funds for new community based services, and administers programs establishing community living continuums. This branch also provides case management services for clients in out-of-home placement at the request of regional centers through the Continuing Care Services Section.

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 appropriation of $525,672,984 from the General Fund to support the activities of the Department of Developmental Services in 1981–82. This is an increase of $4,552,054, or 0.9 percent, above estimated current year

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

General Fund expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Total expenditures, including those financed from federal funds, special funds, and reimbursements, are proposed at $652,980,895 in 1981–82, which is $504,787, or 0.1 percent, above estimated current year expenditures. Table 1 displays program expenditures and funding sources for the prior, current, and budget years.

Table 1
Department of Developmental Services
Program Expenditures and Funding Sources
1979–80 to 1981–82

Program	*Actual 1979–80*	*Estimated 1980–81*	*Proposed 1981–82*	*Percent Change*
1. Community Services				
State Operations [a]	$13,200,786	$13,088,818	$12,754,488	−2.6%
Local Assistance	149,129,018	192,532,109	210,020,334	+9.1
(Subtotal)	($164,329,804)	($205,620,927)	($222,774,822)	(+8.3)
2. Hospital Services				
State Operations	$5,418,828	$8,446,178	$7,080,069	−16.2
Local Assistance	401,687,382	435,658,275	427,846,723	−1.8
(Subtotal)	($407,106,210)	($444,104,453)	($434,926,792)	(−2.1)
3. Planning and Evaluation				
State Operations	$1,760,841	$2,476,238	$2,669,424	+7.8
4. Legislative Mandates				
Local Assistance	$21,990	$274,490	$144,490	−47.4
5. Administration				
State Operations	($6,343,009)	($8,040,315)	($8,339,805)	(+3.7)
Subtotals				
State Operations [a]	$20,380,455	$24,011,234	$22,503,981	+1.7
Local Assistance	550,838,390	628,464,874	638,011,547	+1.2
Totals	$571,218,845	$652,476,108	$660,515,528	+1.2
Reimbursements	−123,927,421	−127,421,041	−124,248,660	−2.5
Special Adjustment	–	–	−7,534,633	–
Net Totals	$447,291,424	$525,055,067	$528,732,235	+0.7
Funding Sources				
General Funds	$443,782,745	$521,120,930	$525,672,984	+0.9
Federal Funds	657,086	841,685	841,685	0
Energy and Resources Fund	–	80,050	–	−100.0
Program Development Fund	2,851,593	3,012,402	2,217,566	−26.4

[a] Includes CCSB funds.

Table 2 displays the adjustments to the current year budget proposed for 1981–82.

Special Adjustments

The budget proposal includes a "special adjustment" reduction of $7,534,633 and 111.7 positions. This reduction consists of (1) $653,917 and 9.0 positions in state operations, which is a 4.0 percent reduction, (2) $2,810,925, or 1.6 percent, from regional center operations, and (3) $4,069,791 from state hospitals, a reduction of 1.3 percent. The budget does not provide detailed descriptions of the program and fiscal consequences of these reductions.

Table 2

Department of Developmental Services
Analysis of Proposed Budget Changes
(General Fund)
1981–82

	Base	*Adjustments*	*Total*
1. State Operations			
A. Budget Act of 1980	$14,497,437		
Current year Adjustments		$937,933	
B. Adjusted Current Year Base	15,435,370		
Budget Year Adjustments		436,663	
Budget Change Proposals Gross		482,118	
C. Gross Proposed, 1981–82	16,354,151		
Special Adjustment		−653,917	
D. Net Proposed 1981–82	15,700,234		
Amount payable from Program Development Fund		−152,648	
E. Net General Fund 1981–82			$15,547,586
2. Local Assistance			
A. State Hospitals			
1. Budget Act of 1980	287,064,870		
Current Year Adjustments		21,462,715	
2. Adjusted Current Year	308,527,585		
Budget Year Adjustments		6,813,091	
Population Adjustments		−7,284,156	
Budget Change Proposals		1,569,492	
Patton Transfer		−6,147,755	
3. Gross Proposed, 1981–82	303,478,257		
Special Adjustment		−4,069,791	
4. Net Proposed, 1981–82			299,408,466
B. Regional Centers			
1. Budget Act of 1980	137,589,132		
Current Year Adjustments		20,219,228	
2. Adjusted Current Year	157,808,360		
Budget Year Adjustments		17,016,534	
3. Gross Proposed, 1981–82	174,824,894		
Special Adjustment		−2,810,925	
4. Net Proposed			172,013,969
C. Continuing Care Services			
1. Budget Act of 1980	7,362,565		
Current Year Adjustments		505,194	
Opt-Out		−2,551,425	
Budget Year Adjustments		111,617	
2. Gross Proposed, 1981–82			5,427,951
D. Other Programs			
1. Cultural Center for the Handicapped			127,370
2. Community Living Continuums			548,000
3. Work Activity Programs			30,073,842
4. Patton Phase-out			2,381,310
5. Legislative Mandates			144,490
1981–82 Local Assistance			$510,125,393
Total, State Operations and Local Assistance			$525,672,984

Lack of Response to Legislative Requests

We recommend that the Legislature direct the Departments of Developmental Services and Finance to explain why twelve reports called for by the Supplemental Report of the 1980 Budget Act and other reporting requirements were not submitted to the Legislature by the due date (these 12 reports were still overdue as of January 31, 1981).

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

The Supplemental Report of the 1980 Budget Act requested the department to submit eleven reports to the fiscal committees on various aspects of programs it administers. Table 3 displays these reporting requirements and due dates, as well as other reports required by law.

Table 3
Department of Developmental Services
Legislative Reporting Requirements
As of February 1, 1981

Reporting Requirements	*Due Date*	*Status*
Supplemental Report Requirements		
1. Joint Hospital Automation Report	December 1, 1980	Past Due
2. Energy Consumption in the State Hospitals	December 15, 1980	Past Due
3. Revised Budgeting Methodology for Regional Centers	November 1, 1980	Past Due
4. Results of the Systems Evaluations Package Review	October 1, 1980	Transmitted November 20, 1980
5. Food Purchasing in the State Hospitals	December 15, 1980	Past Due
6. Budgeting Methodology to Encourage Placement of State Hospital Clients in Community Settings	January 15, 1981	Past Due
7. Plans for Housing State Hospital Clients if Population Exceeds 8,070 on July 1, 1982	October 1, 1980 and January 1, 1981	Past Due
8. Cost Categories in the State Hospitals Affected by Population Declines	November 1, 1980	Past Due
9. High-Risk Infant Follow-up	December 1, 1980	Transmitted January 19, 1981
10. Psychiatric Technician Apprenticeship Program	December 15, 1980	Past Due
11. Management Structure of the State Hospitals	September 1, 1980	Past Due
Other Reporting Requirements		
12. ACR 103 Final Report	January 1, 1980	Past Due
13. Control Section 28.31, Budget Act of 1980, Population Estimates	October 1, 1980	Transmitted October 14, 1980
	January 1, 1981	Past Due
14. Item 541, Budget Act of 1980, Patton Phase-Out	November 1, 1980	Transmitted November 20, 1980

Table 3 indicates that as of February 1, 1981, the department had submitted only three of the fifteen reports due to the Legislature. The other twelve are overdue.

Failure to provide these reports on a timely basis makes it difficult for the Legislature to make informed decisions about the department's budget proposals. We recommend that the Legislature seek an explanation from the Departments of Developmental Services and Finance during budget hearings of why the reports have not been submitted and what corrective actions are being taken to assure timely transmittal of supplemental reports to the fiscal committees in the future.

ITEM 430-001-001: STATE OPERATIONS

Item 430-001-001 proposes a General Fund appropriation of $15,700,234 and Item 430-001-172 proposes an appropriation of $152,648 from the Developmental Disabilities Program Development Fund for state operations in 1981–82. This is an increase of $264,864, or 1.7 percent, above estimated current year expenditures.

Total expenditures, including those supported by reimbursements (primarily for Continuing Care Services) are proposed at $21,850,064, which is a decrease of $2,161,170, or 9.0 percent, below estimated current year expenditures. Table 4 shows the adjustments to the current year budget.

Table 4
Department of Developmental Services
State Operations
Analysis of Proposed Budget Changes, 1981–82

		Adjustments	*Total*
Budget Act of 1980			$14,497,437
Current Year Adjustments:			
Salary Increase		$972,642	
Health Benefits		−34,709	
Adjusted Base Budget, 1980–81			$15,435,370
1981–82 Adjustments:			
Merit Salary Increase		177,426	
Restoration of Current Year Benefit Adjustment		20,017	
Operating Expense and Equipment Special Adjustment		−194,000	
Price Increase—7 percent		280,572	
Amount Payable from Program Development Fund		152,648	
Budget Change Proposals		482,118	
Legal and Legislative Affairs	(−$17,931)		
Investigations	(31,637)		
C.S.D. Internal Operations	(−99,567)		
C.S.D. Community Development	(69,464)		
Automated Pharmacy—EDP	(551,200)		
Budget Section	(34,067)		
Medical Consultant Transfer	(−86,752)		
Proposed Budget 1981–82			$16,354,151
Special Adjustment			−653,917
Net Proposed, 1981–82			$15,700,234

The budget identifies a total of 591.7 positions in department headquarters and Continuing Care Services, which is 82.5 positions below the number authorized in the current year. Table 5 displays the proposed changes in positions, the associated costs and cost savings, and funding sources.

Special Adjustments

The budget proposes special reductions in state operations totaling $653,917 and 9.0 positions. These reductions include: (a) $277,000 in unspecified operating expenses and equipment, (b) 3.0 positions and $133,824 in Planning and Evaluation, (c) 3.0 positions and $138,482 from in-service training, and (d) 3.0 positions and $104,611 from Facilities Planning.

Unjustified Equipment Requests

We recommend deletion of $26,920 budgeted for unjustified equipment purchases in Item 430-001-001.

The department has proposed an expenditure of $132,614 for equipment purchases in 1981–82. The department's equipment schedule, however, details equipment requests totaling only $122,058. Further, $16,364 is requested for "miscellaneous" equipment. The department has provided no description or justification for this request. We therefore recommend deletion of these requests, for a General Fund savings of $26,920 in Item 430-001-001.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 5
Department of Developmental Services
Proposed Changes in Authorized Positions, 1981–82
State Operations

Description	*Number of Positions*	*Cost*	*Fund Source*
Proposed Continued			
1. Compensatory Education	6.0	$239,114	Reimbursements
2. Accounting Staff	2.0	36,652	Reimbursements
3. Adult Education	1.5	49,255	Reimbursements
Subtotals	(9.5)	($325,021)	
Proposed New			
1. Community Development Staff	2.0	$69,414	General Fund
2. PDF Contract Review	2.0	53,081	Program Development Fund
3. Legal Staff	1.0	47,475	Guardianship Fees
4. Budget Staff	1.0	34,067	General Fund
5. Special Investigations	1.0	31,637	General Fund
Subtotals	(7.0)	($235,674)	
Proposed Eliminated			
1. Continuing Care Services Opt-Out	−88.0	−2,551,425	General Fund
2. Special Adjustments	−9.0	−376,917	General Fund
3. Medical Consultant	−2.0	−86,752	General Fund
Subtotal	(−99.0)	(−$3,015,094)	
Total	−82.5	−$2,454,399	

Consolidated Data Centers

We recommend a deletion of $97,935 to eliminate overbudgeting for consolidated data center expenditures.

The department has budgeted $1,497,000 to pay for services from the Health and Welfare Data Center in 1981–82. This amount includes $97,935 for a 7 percent price increase. The data center, however, is not proposing any increases in user rates during the budget year. Consequently, the budgeted price increase is unnecessary, and we recommend that Item 430-001-001 be reduced by $97,935 to eliminate this overbudgeting.

ITEM 430-011-001: STATE HOSPITALS

Item 430-011-001 is a "zero" appropriation item which authorizes the State Controller to transfer funds from other items to pay for services provided in the state hospitals.

The budget proposes an expenditure of $410,462,047 from the General Fund for the nine hospitals operated by the Department of Developmental Services. This is a reduction of $11,519,390, or 2.8 percent, below estimated current year expenditures. (In addition, the department proposes to spend $10,294,311 for services provided to other agencies. These expenditures will be supported by reimbursements.) Of this amount, $299,408,466 will fund programs for the developmentally disabled and $111,053,581 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.

ITEM 430-101-001: LOCAL ASSISTANCE

Item 430-101-001 proposes a General Fund appropriation of $509,980,908 for local assistance administered by the Department of Developmental Services in 1981–82. This is an increase of $4,489,788, or 0.9 percent, above estimated current year expenditures. Total expenditures from all funding sources are proposed at $515,788,279, which is an increase of $3,542,304, or 0.7 percent, above estimated current year expenditures. Table 6 displays local assistance expenditures for state hospitals, regional centers, and other community programs for the prior, current, and budget years.

Table 6
Department of Developmental Services
Local Assistance Expenditures, 1979–80 to 1981–82

Program	*Actual 1979–80*	*Estimated 1980–81*	*Proposed 1981–82*	*Percent Change*
State Hospitals	$278,108,488	$309,453,585	$299,408,466	−3.2%
Regional Centers and Work Activity Programs	145,984,313	184,404,022	204,898,736	+11.1
Other Programs	15,207,759	18,388,368	7,411,286	−59.7
Totals	$439,300,560	$512,245,975	$515,788,279	+0.7%

These expenditures will increase by the amount of any cost-of-living adjustments approved by the Legislature for 1981–82. The budget as submitted proposes no cost-of-living adjustments for local assistance programs.

Special Adjustments

The budget proposes special reductions in local assistance totaling $6,880,716 and 102.7 positions. These include: (a) $1,806,575 in unspecified state hospital operating expenses and equipment, (b) $421,928 and 10.0 positions in state hospital planning, (c) $861,000 and 27.0 positions in state hospital in-service training, (d) $365,066 and 26.0 positions for state hospital grounds maintenance, (e) $615,222 and 39.7 positions for state hospital program administration, and (f) $2,810,925 from regional center operations.

A. REGIONAL CENTERS

The budget proposes an appropriation of $172,013,969 from the General Fund for regional centers in 1981–82. This is an increase of $13,037,789, or 8.4 percent, above estimated current year expenditures. The budget also proposes an appro-

Table 7
Program Expenditures, 1979–80 to 1981–82
Regional Centers and Work Activity Programs

Program	*Actual 1979–80*	*Estimated 1980–81*	*Proposed 1981–82*	*Percent Change*
A. Regional Centers				
1. Operations	$54,173,203	$68,238,638	$71,321,651	+4.5%
2. Purchase of Service	91,811,110	90,471,542	100,692,318	+11.3
a. Out-of-home care	N/A	(49,715,638)	(54,848,928)	+10.3
b. Day programs	N/A	(15,317,212)	(16,162,840)	+5.5
c. Medical services	N/A	(2,794,350)	(2,396,157)	−14.2
d. Other services	N/A	(22,644,342)	(27,284,393)	+20.5
Subtotal	($145,984,313)	($158,710,180)	($172,013,969)	(+8.4%)
B. Work Activity Programs	N/A	$25,693,842	$30,073,842	+17.0
Totals	$145,984,313	$184,404,022	$202,087,811	+9.6%

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

priation of $30,073,842 from the General Fund for transfer to the Department of Rehabilitation (DOR) to operate work activity programs transferred from regional centers to DOR by Chapter 1132, Statutes of 1979. The sum of these appropriations is $202,087,811, which is an increase of $17,683,789, or 9.6 percent, above comparable expenditure estimates for the current year. Table 7 shows prior, current, and budget year expenditures for these programs.

Table 8 shows the proposed changes to the current year budget for 1981–82.

Table 8
Regional Centers
Analysis of Proposed Budget Changes
1981–82

	Adjustments	*Total*
1. Operations		
Budget Act of 1980		$61,382,324
Cost of Living Adjustment	$5,524,409	
Opt-Out	1,331,905	
Adjusted Base, 1980–81		68,238,638
Opt-Out, Full Year Cost	1,041,682	
Increased Caseload	4,852,256	
Special Adjustment	−2,810,925	
Proposed, 1981–82		$71,321,651
2. Purchase of Services		
Budget Act of 1980		$76,206,808
Cost of Living Adjustment	14,264,734	
Adjusted Base, 1980–81		90,471,542
Increased Caseload, Average Costs	$10,220,776	
Proposed, 1981–82		$100,692,318
Total, 1981–82		$172,013,969

Growth in Regional Center Program Expenditures

The cost of the regional centers program has increased rapidly in recent years. Chart 1 shows that program expenditures, including SSI/SSP payments to providers of community residential care, are proposed to increase from $74.6 million in 1976–77 to $279.7 million in 1981–82. ***This is equivalent to an average annual growth rate of 30.3 percent.*** At this rate of growth, regional center expenditures more than doubled every three years.

Several factors have contributed to the program's rapid growth:

1. Monthly SSI/SSP rates of payment to non-medical board and care facilities are proposed to increase from $285 per client in 1976–77 to $420 per client in 1981–82. In addition, the number of regional center clients residing in community residential facilities has increased from 4,692 in 1976–77 to an estimated 16,894 in 1981–82.

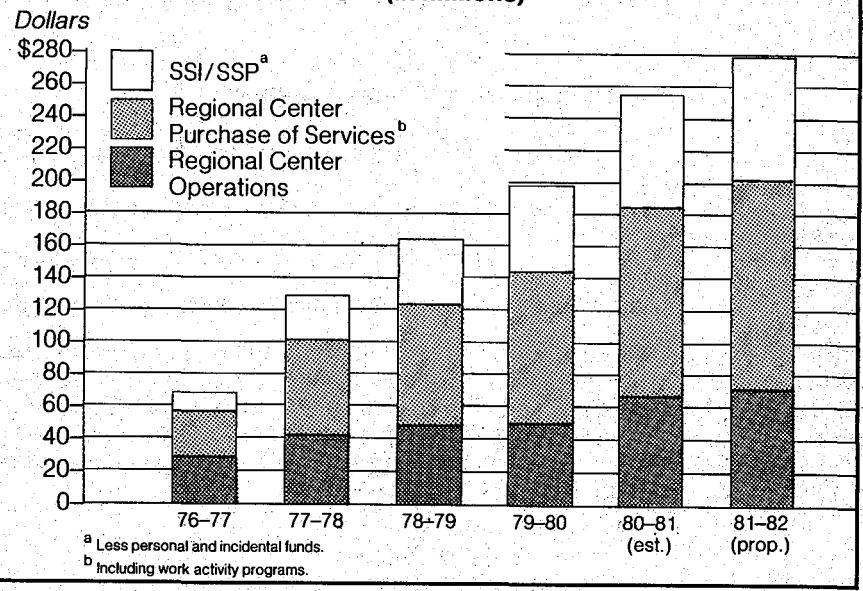
2. Regional center operations expenditures, which are proposed to increase from $30.3 million in 1976–77 to $71.3 million in 1981–82, are determined primarily by caseload. Regional center registered caseload has increased from 32,210 in 1976–77 to an estimated 71,140 in 1981–82.

3. Expenditures for purchase of services, which have increased at an average annual rate of 35.0 percent since 1976–77, have grown primarily because of provider rate and utilization increases. The department's budgeting methodology also contributes to increases in purchase of service expenditures. Because purchase of service budgets are calculated by projecting into the future past trends in purchase

of service billings, expenditure growth is built into the budget. Purchase of service billings are growing at a faster rate than caseload, indicating that purchase of service utilization for currently identified clients is increasing.

Chart 1

Regional Center Program Expenditures and SSI/SSP Payments to Regional Center Clients 1976–77 to 1981–82 (in millions)



[a] Less personal and incidental funds.
[b] Including work activity programs.

Uniform Fiscal Systems

Chapter 1140, Statutes of 1979, and Item 271 of the Budget Act of 1979 require the department to develop and implement uniform accounting, encumbrance control, budgeting, and management reporting systems for regional centers. We will report to the fiscal subcommittees on the implementation of these requirements in a supplemental analysis to be released by March 1, 1981.

1. Regional Center Operations

The budget proposes $71,321,651 from the General Fund for regional center operations in 1981–82. This is an increase of $3,083,013, or 4.5 percent, over estimated current-year expenditures. The total consists of $59,721,145 for personal services, $14,411,431 for operating expenses, and a "special adjustment" reduction of $2,810,925, which would eliminate the equivalent of 52.5 staff positions statewide.

The department prepares regional center operations budgets using a formula called the "core staffing model". This formula uses caseload data and a set of client-staff ratios to calculate staffing allocations for each regional center. Regional centers receive funds to establish staff equivalent to those in the core staffing model, but the centers may use the funds to establish any staff configuration and pay any salaries they deem appropriate.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Regional Center Caseload

The department estimates that the 1981–82 year-end caseload will be 71,140, which is an increase of 4,840, or 7.3 percent, over estimated current-year caseload. Table 9 shows the growth in the number of regional center clients over the past six years. Net of Continuing Care Services clients, regional center caseload is projected to be 65,796, which is an increase of 4,670, or 7.8 percent, above current-year caseload.

Table 9
Regional Center Year-End Caseload

	Actual 1975–76	*Actual 1976–77*	*Actual 1977–78*	*Actual 1978–79*	*Actual 1979–80*	*Estimated 1980–81*	*Proposed 1981–82*
Regional Centers (Gross Caseload)	32,210	42,587	54,461	64,625	67,960	66,300	71,140
Continuing Case Services Section (CCSS)	8,116	8,458	9,311	10,076	8,124	5,264	5,344
Regional Centers (Net Caseload)	24,094	34,129	45,150	54,549	59,836	61,036	65,796

Regional center staffing allocations are not based on year-end caseload but instead on mid-year net caseload, a method which provides funds to finance the full year cost of new caseload added in the current year and the half-year cost of caseload added in the budget year. Table 10, which shows mid-year net caseload figures projected by the department, indicates that the growth in regional center caseload has slowed significantly in the past few years.

Table 10
Regional Centers
Mid-Year Net Caseload

	Number of Clients	*Change*	*Percent Change*
1976–77	29,112	—	—
1977–78	39,639	+10,527	+36.2%
1978–79	49,850	+10,211	+24.8
1979–80	57,193	+7,343	+14.7
1980–81 (estimated)	60,436	+3,243	+5.7
1981–82 (proposed)	63,416	+2,980	+4.9

Some of the decline in the rate of growth, however, is attributable not to decreases in actual caseload growth, but instead to removal of inactive clients from client registries.

Caseload Data Reliability and Regional Center Staffing

The reliability of caseload data has been a continuing problem in the regional center program. The current year budget was based on a gross caseload of 73,706. The current estimate of caseload for 1980-81, however, is 66,300, 7,406, or 10.0 percent less than the number assumed in the 1980 Budget Act. The budgeted figure for 1980-81 included the removal of 7,939 inactive clients from regional centers' client registries. Regional centers therefore have removed as many as 15,000 inactive clients from client registries since 1979. The department's 1981-82 budget proposal is based on caseload data substantially more reliable than in past years.

Although the department and the regional centers have taken steps to improve

the reliability of the caseload data, our analysis indicates that the data are still not entirely reliable. Most significantly, the official caseload figures presented to the Legislature in the preceeding tables are not those actually used to calculate regional center staffing allocations. The worksheets used to calculate current year staffing allocations assumed a net mid-year caseload figure of 53,474, compared to 60,436 in the official figures. The net mid year figure used to calculate 1981-82 staffing is 61,525, compared to the official figure of 63,416. Hence, the worksheets assumed net caseload growth of 15.1 percent, compared to the official figure of 4.9 percent.

Furthermore, we are unable to reconcile these caseload figures with the staffing allocations derived from them. For these positions determined by caseload, the budget proposes allocations equivalent to 2,230 positions, which is an increase of 245, or 12.3 percent, above the current year allocation. This increase is smaller than the 15.1 percent caseload growth projected on the department's worksheets and larger than the 4.9 percent increase in the official caseload figures. Using the department's own caseload figure of 61,525 for 1981-82, we estimate that 2,612 positions are required to implement the department's core staffing fomula. This number is 4.8 percent higher than the allocation proposed. The department's proposal, therefore, would not allow the regional centers to implement the core staffing model fully, asuming that the caseload figures are reliable. The caseload data, however, are not yet reliable enough to allow us to determine whether the budget proposal would allow regional centers to establish the equivalent of the core staffing model.

Special Adjustment

The budget proposes the elimination of 2.5 positions from each of the 21 regional centers (one program evaluator, one resource developer, and 0.5 education liaison officer positions.) This adjustment would eliminate the equivalent of 52.5 regional center positions statewide. The savings resulting from this reduction is estimated at $2,810,925.

Salaries and Benefits

The department calculated the cost of the core staffing allocations for 1981-82 using both actual regional center salaries and the salaries for equivalent state employee classifications. The budget proposal is based on state salaries, which the department estimates is $1.75 million less costly than using regional center salaries. The budget proposal, however, uses actual staff benefits paid by regional centers, which are considerably lower than those paid by the state.

2. Purchase of Services

The budget proposes expenditures of $100,692,318 from the General Fund for purchase of services in 1981-82, which is an increase of $10,220,776, or 11.3 percent, above estimated current year expenditures. The total consists of (a) $54,848,928 for out-of-home care, an increase of $5,133,290, or 10.3 percent, (b) $16,162,840 for day programs, an increase of $845,628, or 5.5 percent, (c) $2,396,157 for medical services, a decrease of $398,193, or 14.2 percent and (d) $27,284,393 for "other" services, an increase of $4,640,051, or 20.5 percent. "Other" services consist primarily of transportation services, camps, respite care, and home care. The largest and fastest growing component of "other" services is transportation. The budget proposes $13,785,700 for transportation services in 1981-82, which is an increase of $3,099,800, or 29.0 percent, above estimated current year expenditures. Total purchase of service expenditures, including SSI/SSP reimbursements to residential care providers, are proposed at $178,420,851, an increase of $16,148,940, or 10.0 percent, above estimated current year expenditures.

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Table 11 shows the average number of purchase of service billings and average annual cost per client for four categories of services.

Table 11
Regional Center Purchase of Service
Average Caseload and Average Annual Cost

Caseload	*Actual 1978–79*	*Actual 1979–80*	*Estimated 1980–81*	*Proposed 1981–82*	*Percent Change*
Out-of-home care	11,746	13,285	15,513	16,894	+8.9%
Day programs	4,214	4,780	5,355	5,499	+2.7
Medical care	1,503	1,481	1,894	1,430	−24.5
Other services	15,291	16,002	19,803	18,997	−4.1
Average Annual Cost					
Out-of-home care	$2,953	$3,097	$3,205 [a]	$3,233 [a]	+0.9% [a]
Day programs	2,275	2,497	2,681	2,909	+8.5
Medical care	1,270	1,434	1,469	1,676	+14.1
Other Services	780	953	1,143	1,436	+25.6

[a] Average costs including SSI/SSP expenditures equal $7,833 in 1980-81 and $8,004 in 1981-82, an increase of 2.2 percent.

Table 11 shows that increased expenditures for purchase of services have resulted from both caseload increases and increased average costs. Even though no cost of living adjustments for vendor rates are proposed for 1981-82, the department forecasts increased average costs for all expenditure categories. Total out-of-home care average costs are forecast to increase by 2.2 percent, due to increased assessed levels of client supervision and increased use of specialized services in residential care facilities. Average costs in day programs are forecast to increase 8.5 percent because new programs are reimbursed at provisional rates set significantly higher than average rates and because programs are billing the state for an increasing number of client hours per month. The projections of large increases in average costs for the remaining services (14.1 percent for medical care, 25.6 percent for other services) indicates that the rate of utilization of these services is increasing rapidly. The department has been unable to explain why utilization of these services has increased so rapidly. Moreover, the department's budget proposal contains sufficient funds to allow utilization to increase at its 1979-80 rate.

SSI/SSP Reimbursements Are Underestimated

We recommend deletion of $3,160,236 from Item 430-101-001 to correct for underbudgeting of reimbursements.

The budget proposes $54,848,928 for community residential care. This request assumes a total program cost of $132,577,164 and SSI/SSP reimbursements of $77,728,236. The department's estimate for SSI/SSP reimbursements, however, is based upon the 1980-81 grant for non-medical board and care facilities, which averages $406 per month. The administration is proposing, however, that SSI/SSP payments for these clients be raised to $420 per month in 1981-82. Using this amount, our analysis indicates that 1981-82 SSI/SSP reimbursements will be $80,888,472. Consequently, the net cost to regional centers under the rate structure proposed will be only $51,688,692. Accordingly, we recommend a reduction in Item 430-101-001 of $3,160,236 to adjust for the underbudgeting of reimbursements.

Community Placement Funds

The budget proposes $1,274,080 within the purchase of service allocations to reimburse regional centers for the cost of placing state hospital residents in community programs. This is a decrease of $235,793, or 15.6 percent, below the amounts earmarked in the current year budget for the same purpose. The budget indicates that these funds will be sufficient to reimburse regional centers for the cost of 231 net community placements from state hospitals. Our analysis indicates that of the $1,274,080 budgeted, $406,113 will be required to provide full year funding for the 102 net placements estimated in the current year. The remaining $867,907 is sufficient to support 218, not 231 as shown in the budget, net placements in 1981-82.

We have identified other problems with the request for community placement funds, as well:

1. ***These funds may not be adequate to fully reimburse regional centers for the placements.*** Regional centers will be reimbursed by an amount equal to the actual purchase of service cost of placing a state hospital resident in community programs minus the actual cost savings each center realizes by placing community clients in state hospitals. The department, however, has calculated the budget for community placement funds not on the basis of the estimated net cost of placing state hospital residents, but instead on the average purchase of service costs for *all* clients served in the community. This figure, $7,963 per net placement, may be an unreliable estimate of the actual net costs of community placement for state hospital residents.

The cost of serving state hospital residents in community settings will be higher than the current average cost of community care. This is because state hospital residents are, on average, more disabled than those currently served in the community. Table 12 compares the assessed levels of supervision of state hospital residents with that of clients currently residing in out-of-home care.

Table 12
Assessed Levels of Supervision
State Hospital Residents and Community Clients
1980–81

Assessed Level of Supervision	*State Hospitals Residents*	*Community Care Facility Residents*
Basic	1.8%	19.9%
Minimum	19.7	50.0
Moderate	32.6	17.0
Intensive	45.9	13.1
Totals	100.0%	100.0%

This table shows that over three-quarters of state hospital residents would require moderate or intensive levels of supervision in community residential care facilities, while 70 percent of clients currently residing in community care facilities are assessed at basic or minimum levels. Since the vendor reimbursements rates for moderate and intensive clients are higher than those for basic and minimum clients, the costs of community residential care for state hospital residents will be higher than the existing average costs. The costs of non-residential services similarly will be higher. The community placement funds may therefore be insufficient to reimburse regional centers fully for the net cost of community placements.

2. ***Regional centers have failed to place the expected number of clients in past years.*** In 1979–80, this item had sufficient funds for 203 net placements in the community; the regional centers actually made 160 placements. In the current year, regional centers are budgeted for 231 net placement. The department now

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projects that regional centers will make 102 net placements. These shortfalls in actual net placements below budgeted net placements may continue in 1981–82, particularly since no vendor rate increases are proposed, and since the administration has proposed to eliminate funding for one of the two resource development positions in regional center core staffing.

3. Regional Center Budgetary Administration

The regional center program has a history of annual purchase of service deficiencies which are supported by mid-year budget augmentations, followed by year-end reversions of unexpended funds. Table 13 displays the history of the programs' budget allocations, augmentations, expenditures, reversions, and reversions as a percentage of the revised budget allocations.

Table 13
Regional Centers Program
History of Mid-Year Augmentations and Year-End Reversions

Fiscal Year	*Initial Budget*	*Mid-Year Augmentations*	*Revised Budget*	*Expenditures*	*Year-End Reversions*	*Percent Reversion*
1974–75	$40,318,598	$2,750,000	$43,068,598	$33,695,940	$9,372,658	21.8%
1975–76	51,170,094	0	51,170,094	46,990,301	4,179,793	8.2
1976–77	57,664,271	7,802,664	65,466,935	59,384,982	6,081,953	9.3
1977–78	87,155,327	17,502,844	104,658,171	100,196,781	4,461,390	4.3
1978–79	122,564,556	5,000,000	127,564,556	124,151,554	3,413,002	2.7
1979–80	144,436,717	6,184,168	151,383,520	145,984,313	5,399,207	3.6

Table 12 shows that the proportion of the budget allocations reverted by the regional centers has declined from 21.8 percent in 1974–75 to 3.6 percent in 1979–80.

The Budget Act of 1979 appropriated $145.2 million for regional centers, including $56.1 million for operations and $89.1 million for purchase of services, exclusive of work activity programs. In January of 1980, the department requested a deficiency appropriation, including $3.8 million for purchase of service shortfalls and $0.5 million for emergency rate increases. Chapter 59, Statutes of 1980 (SB 1407) appropriated the funds requested, plus an additional $1.8 million for rate increases for providers of community residential care. Table 14 shows Budget Act allocations, Chapter 59 augmentations, expenditures and reversions for 1979–80.

Table 14
Regional Center Expenditures
1979–80
(in millions)

	Operations	*Purchase of Services*	*Total*
Budget Act of 1979	$56.1	$89.1	$145.2
Chapter 59 Augmentation	—	6.2	6.2
Total Allocation	$56.1	$95.3	$151.4
Expenditures	54.2	91.8	146.0
Reversions	$2.0	$3.4	$5.4
Percent Reverted	3.5%	3.7%	3.6%

Regional centers reverted $3.4 million in purchase of services, which is equal to 56 percent of the Chapter 59 augmentation.

Our analysis indicates that much of the reversion came from two regional centers—San Andreas and South Central Los Angeles. San Andreas reverted $1.1 million at the end of the 1979–80 fiscal year, or 12.8 percent of its budget. South Central Los Angeles reverted $830,000, or 11.9 percent, of its budget. No other center reverted more than five percent of its allocation. Together, these two centers reverted over $1.9 million, which was 36 percent of the systemwide reversion. These data indicate that the problem of reversions in the regional center program in recent years is related more to individual cases of management and/or accounting control deficiencies and chronic overbudgeting than to systemwide deficiencies in budgeting and program administration.

Absence of Budgetary Control

We recommend that the department report to the fiscal subcommittees during budget hearings regarding the (1) sufficiency of proposed purchase of service funding in 1981–82 and (2) impact on local programs and clients in the event that budget appropriations are insufficient to support the projected level of services.

The absence of large systemwide reversions, however, does not imply that the administration of regional center budgets is without problems. Many regional centers are able to balance their budgets only by forming waiting lists for services or by denying clients discretionary services outside of basic habilitation programs. In the current year, several centers are overencumbering funds and consequently project deficits in their budgets. The department indicates that some centers do not have sufficient funds to purchase basic habilitation programs for all their clients. Because of these individual regional center deficits, the department directed all centers, in a memo dated January 5, 1981, to implement a priority system governing expenditures for purchase of services and to discontinue the purchase of discretionary services for all clients during the remainder of the fiscal year. The department stated that it intends to transfer the savings generated from these service reductions to those centers experiencing serious deficits. As of February 1, 1981, the department had made no such transfers.

The department's prediction of individual regional center budget deficits indicates the presence of significant management control deficiencies and budgeting problems in the regional center program. Because regional centers reverted $5.4 million in 1979–80 and because $0.5 million in emergency rate increases for transportation providers in 1980–81 was not expended, the regional centers program began 1980–81 with a potential base budget surplus of $5.9 million. Pursuant to Chapter 511, Statutes of 1980, approximately $1.1 million of this amount was required to cover losses in SSI/SSP reimbursements, starting January 1, 1981. Hence, if the caseload and billings projects used to construct the current year budget were accurate, the regional centers would revert $4.8 million at the end of 1980–81. The department's current prediction that the 1980–81 purchase of service allocation will be fully expended indicates that the current rate of growth in purchase of service expenditures is substantially greater than the growth rate in 1978–79 and 1979–80, which was used to project 1980–81 expenditures.

The department's proposal for 1981–82 uses 1979–80 caseload and billing growth rates to project caseload and purchase of service expenditures. If the current year surplus is fully utilized, and the current rate of expenditure growth continues through 1981–82, then the regional center program will incur a substantial deficit in 1981–82 under the budget proposal. The budget proposal is therefore sufficient only if regional centers reduce the growth in service utilization over the next 18 months, particularly for transportation services and discretionary services.

We are unable to advise the Legislature on how the administration intends to support the increased expenditures its data indicate, or what service reductions would be required were the 1981–82 budget proposal to be approved. We recom-

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mend that the department report to the fiscal subcommittees during budget hearings regarding the (1) sufficiency of proposed purchase of service funding for 1981–82, and (2) impact on local programs and clients in the event that budget appropriations are insufficient to support the projected level of services.

4. Vendor Rates and Rate Setting

Reimbursement rates paid to vendors of community services are among the most important fiscal administrative decisions made by the department's Community Services Division (CSD). Vendor rates determine regional center purchase of service expenditures and vendor revenues directly, and then indirectly determine the quality of care and treatment provided to clients residing in the community. Although vendor rate setting is an administrative function performed by CSD, the department cannot set rates unilaterally. The amounts contained in the department's schedule of maximum allowances for service are actually determined by budget act appropriations for each expenditure category and the SSI/SSP rate for community residential care. Vendor rate setting is primarily a legislative function, although the administration retains considerable flexibility in determining allowable variation in rates among different classes of providers.

Functioning of Residential Care Rates

Welfare and Institutions Code Section 4681 requires the department to set rates for out-of-home care based on the following cost elements: (1) basic living needs, (2) direct supervision staff, and (3) unallocated or indirect services. The law requires the department to recompute allowances for basic living needs and direct supervision staff annually, based on cost of living and wage increases, and to redetermine basic living needs every three years. Table 15 shows the 1980–81 and proposed 1981–82 rate structure for residential care.

Table 15
Schedule of Maximum Allowances
Community Residential Care for the Developmentally Disabled
1980–81 and Proposed 1981–82
(dollars per month per client)

Level of Supervision and Training Required	*Facility Bed Size*			
	1–6	*7–15*	*16–49*	*50+*
Minimum	$485	$504	$555	$549
Moderate	619	638	689	682
Intensive	709	727	777	772

Based upon a rate study conducted by the department in 1977, the Legislature appropriated an additional $17.5 million for residential care operators for 1977–78.

Table 16
Cost of Living Adjustments (COLA)
Community Residential Care
1978–79 to 1980–81

Fiscal Year	*COLA*
1978–79	6.0%
1979–80	8.0
1980–81	9.0
Compounded Total	24.8%

Since 1977–78, rate adjustments have not been based upon a reassessment of basic living needs and staff costs, but instead have reflected across the board cost of living adjustments. Table 16 displays these increases for fiscal years 1978–79 to 1980–81.

The department is currently conducting an audit of a sample of facilities to redetermine the cost of basic living needs. These data will be available in mid-March.

Functioning of Day Program Rates

Welfare and Institutions Code Section 4690 requires the department to establish equitable rates for non-residential programs, but the law specifies no particular rate setting procedure. Currently, rates for individual day program providers are established by the department on the basis of a prior year cost statement adjusted for the cost of living. The department has limited rate increases in 1980–81 to nine percent. New vendors rates are set on a provisional basis. Actual monthly vendor rates for these programs range from under $200 per client to over $600, with an average of $223 per client.

In 1980 the department conducted a study of vendor rates for day training and activity (DTA) programs, which constitute the largest proportion of day program providers. This study used a set of program and staffing standards to develop a prescribed rate structure for day training programs. These rates were higher than current year rates by an average of seven percent. The new rate structure would also have reduced considerably the variation in provider reimbursement. The administration, however, has not proposed that the new program and staffing standards or the new rate structure for DTA programs be implemented.

5. Other Regional Center Issues

Individual Program Plans

We recommend that the department describe at budget hearings the steps to be taken to assure development of individual program plans for all regional center clients.

Welfare and Institutions Code Section 4647 requires regional centers to have developed individual program plans (IPPs) for all active clients by January 1, 1979. IPPs, which are developed by regional center staff, the client, and the client's parents or guardian, include an assessment of the (a) client's problems and capabilities, (b) specific objectives for resolving identified problems, (c) a schedule of services required to achieve those objectives, and (d) a schedule of regular periodic review and assessment. The law requires IPPs to be updated at least annually.

Between January of 1979 and August of 1980 the department conducted performance reviews of all 21 regional centers using the department's System Evaluation Package (SEP) evaluation instrument. Pursuant to direction in the Supplemental Report to the Budget Act of 1980, the department submitted a report to the Joint Legislative Budget Committee summarizing the results of the portion of the SEP reviews regarding case management, including a review of individual program planning. The SEP review teams examined client record files in each center to determine whether regional center clients has current, realistic, and complete IPPs prepared by the appropriate individuals, with a definite plan of progress.

The department's review found "generally low levels of compliance," despite the fact that centers were required by law to prepare complete IPPs for all active clients before any of the SEP reviews were conducted. The review teams found that 47 percent of active regional center clients had current, realistic, and complete IPPs on file. The level of compliance varied considerably among individual centers, from a low of five percent to a high of 74 percent.

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Regional centers appear to be moving toward compliance. Of the first eleven centers reviewed, the average compliance rate for IPPs was 43.1 percent; for the remaining ten, the average compliance rate was 51.2 percent. Further, many centers have submitted plans of correction to comply with these requirements and to improve the overall quality of case management. Others are making use of technical assistance provided by the department. Some centers, however, have refused to submit plans of correction to the department.

Individual program planning is a central feature of regional center case management. It is, nevertheless, a costly policy to administer. A report entitled "Regional Center and CCSB Differential Caseload Staffing," which was prepared by the Department of Finance Program Evaluation Unit and released in April of 1980, concludes that individual program planning consumes between 29 and 48 percent of case managers' time. Since the case management staff is by far the largest component of regional centers' operations budgets, the requirement for annual IPPs increases regional center costs significantly. Since the IPP acts also as a prescription for services, individual program planning tends to increase purchase of service costs as well.

Because of the prominence of individual program planning in the case management system, we recommend that the department present testimony at the budget hearings describing the steps required to implement the regional centers' plan of correction for case management and to assure development of IPPs in those centers that have failed to submit plans of correction.

Regional Center Prevention Services

Welfare and Institutions Code Section 4642 authorizes regional centers to provide intake and assessment services to persons believed to have a developmental disability and to persons believed to be at risk of parenting a disabled infant. Section 4644 authorizes regional centers to provide or cause to be provided preventive services to parents determined to be at risk of parenting a disabled infant. The department has defined preventive services to include public information and education programs, health and nutrition education, genetic screening and counseling, early intervention, and infant stimulation.

The department's current management information system does not provide data on the types of prevention services provided or purchased by regional centers, the number of clients served, or prevention expenditures. Direct services, such as genetic counseling, are reported only as personal services expenditures. Purchased services, such as amniocentesis or infant stimulation, are reported as external contractual services under the operations budget, or as vendorized purchased services.

A lack of uniformity among centers in registering prevention clients and claiming prevention service expenditures has hampered efforts to identify the types and costs of prevention services provided. The department has taken steps to standardize client registration and prevention claiming procedures. Until these uniform fiscal systems are fully implemented, the department's management reporting system will not be able to identify prevention services specifically. Without this information, the costs and effectiveness of regional center prevention services cannot be determined.

State Hospital Utilization by Regional Centers

Table 17 displays data showing (a) regional center gross caseload, (b) the number of state hospital placements by center, (c) the proportion of state hospital placements from each center, and the rate of state hospital utilization, as a proportion of individual centers' caseload. This table indicates that considerable variation

exists in the rate of state hospital utilization among centers. The rate of utilization ranges from 6.7 percent to 25.4 percent, with a mean of 14.3 percent. Three regional centers—Golden Gate, East Bay, and San Andreas—have placed 2,647 clients in state hospitals, which is 30.1 percent of all regional center state hospital placements. In addition, these three centers have the highest rates of placement in the state, ranging from 24.2 percent to 25.4 percent.

Despite the fact that the rate of hospital utilization varies among centers, the department's policies toward regional centers is uniform. Vendor rates for community residential care do not allow for geographic-based variations in cost. The allocation of community placement funds is determined on the basis of utilization in past years. If a regional center has made few net placements in past years, it receives relatively small allocations of community placement funds. Moreover, the core staffing formula allocates an identical number of resource development staff to each center. Finally, the department has no policy to address the unusually high rates of hospital utilization in the three centers mentioned previously.

Table 17
State Hospital Utilization
by Regional Center
June 1980

Regional Center	*Total Caseload*	*Number of State Hospital Clients*	*Proportion of State Hospital Clients*	*Proportion of Regional Center Clients Placed in State Hospital*
Alta California	3,885	439	5.0%	11.3%
Central Valley	4,027	513	5.8	12.7
East Bay	3,851	932	10.6	24.2
East Los Angeles	1,934	355	4.0	18.4
Far Northern	1,273	138	1.6	10.8
Lanterman	2,417	469	5.3	19.4
Golden Gate	3,456	878	10.0	25.4
Harbor	3,138	423	4.8	13.5
Inland Counties	4,347	335	3.8	7.7
Kern	1,387	240	2.7	17.3
North Bay	1,949	313	3.6	16.1
North Coast	1,141	77	0.9	6.7
North Los Angeles	3,200	401	4.6	12.5
Orange County	4,206	472	5.4	11.2
San Andreas	3,339	837	9.5	25.1
San Diego	4,106	400	4.6	9.7
San Gabriel Valley	3,161	313	3.6	9.9
South Central Los Angeles	3,693	390	4.4	10.6
Tri-Counties	3,014	312	3.6	10.4
Valley Mountain	1,923	235	2.7	12.2
Western	2,093	291	3.3	13.9
Total	61,540	8,772	100.0%	14.3

B. WORK ACTIVITY PROGRAMS

The budget proposes $30,073,842 for transfer to the Department of Rehabilitation (DOR) to administer work activity programs in 1981–82. The proposal includes $660,499 for program administration by DOR and $29,413,343 for purchase of workshop services. This is an increase of $4,380,000, or 17.5 percent, above estimated current year expenditures.

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The purchase of service proposal assumes a caseload of 9,945 clients, an increase of 15.0 percent over current year caseload, and an average annual cost per client of $2,958, an increase of 1.0 percent over estimated current year average costs. Specifically, the budget assumes a daily cost of $14.34, 250 attendance days per year and an attendance rate of 82.5 percent.

The administration's cost projections for 1980–81 indicate that work activity programs will cost an estimated $25,324,779, while the department has a current year budget allocation of $25,033,343. The department states that it intends to fund the $291,436 deficit by redirecting funds from other expenditure categories in regional center purchase of services, but the department has not indicated specifically which funds will be redirected.

C. CONTINUING CARE SERVICES

The budget proposes $5,427,951 for Continuing Care Services (CCSS) in 1981–82, which is a reduction of $2,439,808, or 31.0 percent, below estimated current year expenditures. The primary component of this reduction is a proposal to transfer CCSS staff to six regional centers in 1981–82, a procedure known as "opt-out." Table 18 displays the adjustments to the current year budget proposed for 1981–82.

Table 18
Continuing Care Services
Analysis of Proposed Budget Changes

	Adjustments	*Total*
1980 Budget Act		$7,362,565
Current Year Adjustments	$505,194	
Revised Current Year		7,867,759
Budget Year Adjustments:		
Price Adjustment	93,028	
Merit Salary Adjustment	107,490	
Operating Expense Reduction	−80,000	
Benefit Adjustment	−8,901	
Opt-Out	−2,551,425	
1981–82 Proposed		5,427,951

"Opt-Out"

We withhold recommendation on the proposed funding transfer from Continuing Care Services until the department (1) prepares regional center augmentations using the core staffing formula and (2) prepares a plan to reduce CCSS department headquarters staff and overhead.

"Opt-out" is a procedure whereby regional centers discontinue the use of CCSS protective living services for clients in out-of-home placement. The CCSS clients are absorbed in the regional center's caseload, and CCSS staff and funding are transferred to the opt-out center. At the beginning of 1980–81, six centers had opted-out of CCSS. Six additional centers have done so in the current year. In 1980–81, $1,331,905 in CCSS funding and the equivalent of 82.0 positions have been transferred from CCSS to these six centers. The budget proposes a CCSS budget reduction of $2,551,425 and a budget augmentation in the six new opt-out centers of $2,373,587.

Seven additional centers have stated that they want to discontinue CCSS services prior to 1981–82. The department has yet to approve opt-out applications of these centers. If these locations are approved on schedule, only two regional centers, East Bay and Lanterman, would continue CCSS services in 1981–82.

We have identified two problems with the proposed funding and expenditure shift:

1. ***The department did not use the core staffing formula to calculate regional center operations augmentations.*** The augmentations budgeted for the six new opt-out regional centers is based on a client-to-program coordinator ratio of 67:1, which is the current *CCSS* staffing standard. The core staffing formula for regional center operations, however, uses a ratio of 62:1, which is more costly. In addition, the augmentations were calculated using state employee benefit levels, while the budget proposal for regional center operations uses actual regional center benefit levels, which are considerably lower. Changing the staff ratio will increase the cost of opt-out in 1981–82, while changing the staff benefit figure will lower it. We are unable at this time to determine the net effect of these changes.

2. ***The department is proposing no reductions in CCSS headquarters staff or overhead.*** CCSS field operations have been reduced by over 50 percent and may be eliminated altogether in 1981–82. The department should prepare appropriate reductions in state operations expenditures associated with opt-out.

Until the department prepares (1) regional center augmentations using the core staffing method and (2) a plan to reduce CCSS headquarters staff and overhead in 1981–82, we cannot recommend that the proposed funding shift be approved.

Unjustified Equipment Requests

We recommend deletion of funds budgeted for unjustified equipment requests, for a General Fund savings of $29,965 in Item 430-101-001.

CCSS has requested $29,965 for replacement and purchase of additional equipment in 1981–82. The request provides for one replacement and two additional four-door sedans, at a cost of $25,920. Since CCSS operations will be substantially reduced in 1981–82 and may be phased out entirely, this equipment is not needed and should not be purchased. We recommend that the amount budgeted for this purpose be deleted.

D. OTHER COMMUNITY PROGRAMS

Program Development Fund

We recommend that at the time of the fiscal subcommittee hearings on the department's budget, the Department of Finance state why its report on the utilization of the Program Development Fund has not been presented to the Legislature, as required by law.

The budget proposes an appropriation of $2,217,566 from the Developmental Disabilities Program Development Fund (PDF) in 1981–82. This is a decrease of $794,830, or 26.4 percent, below estimated current year expenditures. The proposal includes $2,064,918 for community program development grants and $152,648 to support two new and two existing positions in the department's Community Operations Branch. The four positions (three professional, one clerical) will be responsible for (a) program and fiscal reviews of PDF grant proposals, (b) processing PDF contracts, and (c) other review and contract duties associated with the development of community programs.

Since the first cycle of PDF grants in 1977–78, the fund has financed 82 projects, which created 2,435 service slots at a cost of $4.8 million. The Lanterman Act limits PDF support for individual projects to a 24 month period. As a result, PDF projects, although initially supported by parental fees and federal funds, become General Fund obligations to the extent new programs seek continuation funding in subsequent fiscal years.

The Lanterman Act required the Department of Finance to report to the Legislature concerning the utilization and effectiveness of the PDF by June 30, 1980.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

The department indicated to the fiscal subcommittees during last year's budget hearings that its report was being prepared and would be submitted prior to the deadline. As of January 15, 1981, the report had not been transmitted. We recommend that the fiscal subcommittees seek an explanation from the department as to why the report was not submitted in accordance with law.

Parental Fees

We recommend that the department describe during budget hearings the steps required to implement parental fee systems for non-residential services. We further recommend that the Lanterman Act be amended to allow the use of parental fee collections as offsets to purchase of service program expenditures.

Welfare and Institutions Code Sections 4677, 4782, and 4784 authorize the department to require parents of children under the age of 18 who are receiving services purchased by the regional center to contribute to the cost of services, not to exceed the cost of caring for an additional normal child at home. Diagnosis and counseling services provided by the regional centers are the only regional center services exempt by law from parental fees. All fee collections are deposited in the Program Development Fund. No fees are used as offsets to purchase of service expenditures.

The department has promulgated regulations implementing these code sections (California Administrative Code Title 17, Part II, Chapter 2, Section 50201 et seq.) which limit parental fees to two categories of service—24-hour community residential care and state hospital care. All other regional center services are provided free of charge. The fee schedule for 24-hour residential care is based upon ability to pay, family size, and client age. No fees are charged to families having a total annual income of less than $8,000. The monthly charges for services ranges from $13 per month for a family of six or more having an income of $8,000, to $141 per month for a family of two with an income of $20,000 or more. The department estimates that parental fee collections in 1980–81 will be $1,129,658. Because there are approximately 2,700 children in out-of-home placement statewide, the average monthly parental fee payment approximates $35. The General Fund cost of community residential care ranges from $485 to $772 per month, or more if special services are purchased.

Our analysis of the department's fee policy indicates that:

1. ***The fee schedule for out-of-home care is regressive.*** Families with an income of $8,000 pay a fee that is a higher proportion of their income than the fee paid by families with incomes of $20,000 or more.

2. ***The department has not developed a fee schedule or repayment mechanism for non-residential services.*** Many other health and social service programs charge clients for a portion of the cost of services provided. California Children's Services and the Genetically Handicapped Person's program, for example, use the Simplified Repayment System, which is based upon state income tax liability, while local mental health and alcohol and drug programs use a fee schedule based upon the Uniform Method for Determining Ability to Pay (UMDAP). The Lanterman Act authorizes the department to establish fee schedules and to require parental contributions for non-residential services, but the department has not implemented these provisions.

3. ***Fees have not kept pace with program costs.*** Table 19 shows parental fee collections, regional center purchase of service expenditures, and fees as a proportion of program expenditures from 1976–77 to 1981–82. The table shows that parental fees have declined as a proportion of program expenditures, from 1.4 percent in 1975–76 to 0.6 percent in the current year.

Table 19
Parental Fee Collections
and Regional Center Purchase of Service Costs
(in millions)

	Fees	*Purchase of Service Expenditures*	*Percent*
1976–77	$0.6	$44.3	1.4%
1977–78	0.6	94.4	0.6
1978–79	0.9	114.9	0.8
1979–80	1.4	145.1	1.0
1980–81 (estimated)	1.1	188.0	0.6
1981–82 (proposed)	1.2	208.4	0.6

The rate of expenditure growth in some categories of non-residential services has been so rapid that the department has directed regional centers to cease purchasing all discretionary services. The use of substantial fees or copayments may be the only means available to regional centers to assure continued funding of these services in subsequent fiscal years.

4. ***Parental fees currently are not used to help cover the cost of services.*** Because all parental fee collections are deposited in the Program Development Fund, parental fee collections do not help finance purchase of service expenditures. In fact, the use of parental fees to support PDF projects may actually cause General Fund costs to be *higher* than they would otherwise be. This is because the term of PDF grants is limited by law to 24 months, and as a result the General Fund is likely to be asked to provide continuation funding for the programs created by PDF grants in subsequent fiscal years.

Based on the findings of our analysis, we recommend that the department present testimony at budget hearings describing the steps required to implement parental fee collections systems for non-residential services. This testimony should address the following issues: (1) which non-residential services should be subject to charges or fees, (2) what statutory and administrative changes are required to implement parental fees for nonresidential services, and (3) whether the existing fee schedule for residential care is equitable and otherwise appropriate.

Further, we recommend that Welfare and Institutions Code Sections 4677, 4782 and 4784 be amended to allow parental fees to be used as offsets to regional center purchase of service expenditures. This statutory change will provide the Legislature with additional flexibility in the use of parental fee collections.

Community Living Continuums

Chapter 1232, Statutes of 1978 (AB 3274), authorizes the department to designate and contract with agencies to implement community living continuums throughout the state. The statute defines a continuum as "a coordinated multicomponent services system within the geographic borders of each of the 13 area boards on developmental disabilities whose design shall support the sequential developmental needs of persons such that the pattern of these services provides an unbroken chain of experience, maximum personal growth and liberty." In order to achieve these ends, the designated continuum agencies (DCAs) are empowered to provide services including, but not limited to, the following: (1) family subsidy programs, (2) in-home supportive services, (3) adopted foster care services, (4) respite care, (5) crisis assistance, (6) independent and semi-independent living, (7) group living, (8) programs for the medically fragile, and (9) services to persons with severe behavioral and other developmental special needs.

Chapter 1232 appropriated $25,000 to the department to implement the continuum program. The Budget Act of 1979 appropriated an additional $1.0 million, and

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

the Budget Act of 1980 provided another $1.5 million. The amount appropriated in the 1979 Budget Act was carried over from 1979–80 to 1980–81.

The budget estimates that $1,952,000 will be encumbered in 1980–81, and that the remaining $548,000 will be carried over into 1981–82. The budget proposes no new funding for this program in 1981–82.

The department has designated eight DCAs to provide services. Table 20 indicates the contracting status of each DCA.

Table 20
Designated Continuum Agency
Contract Status as of January 15, 1981

Contractor	*Contract Status*
1. North Bay Regional Center	Contract signed, approved by Finance, General Services approval pending
2. Agnews State Hospital	Memorandum of understanding signed, awaiting Finance approval
3. Human Services Continuum of Los Angeles	Negotiations complete, final draft awaiting contractor's approval
4. Fairview State Hospital	Negotiations complete, final draft awaiting contractor's approval
5. Community Living Services, East Bay	Negotiations complete, final draft awaiting contractor's approval
6. Community Living, Inc., West Bay	Negotiations complete, final draft awaiting contractor's approval
7. North Coast Regional Center	Contract negotiations occurring
8. Alta California Regional Center	Contract negotiations occurring

Implementation of Chapter 569, Statutes of 1980

We recommend that the Department of Developmental Services, with the cooperation of the Department of Health Services, include in the May Revision an analysis of the 1981–82 fiscal effect of small ICF-DD(H) facilities.

Chapter 569, Statutes of 1980 (AB 2845), requires the Departments of Developmental Services and Health Services (DHS) to develop and implement licensing and Medi-Cal regulations for small intermediate care facilities/developmentally disabled habilitative (small ICF/DD(H)). The law also requires the department and the Office of Statewide Health Planning and Development to develop and implement construction and certificate of need regulations for small ICF/DD(H) facilities. Chapter 569 appropriated $2 million to the department without regard to fiscal year for development of community programs, with priority to be given to appropriate community placement of state hospital residents and to development of small ICF-DD(H) facilities.

The Departments of Developmental Services and Health Services currently are negotiating over the content of proposed licensing and Medi-Cal regulations. The Department of Developmental Services estimates that these regulations will become effective no later than October 1, 1981. Small ICF DD(H) would become eligible for Title XIX reimbursement on that date. Chapter 569 funds will be used to establish and support new and converted small ICF-DD(H) programs until Medi-Cal regulations are in effect. As of January 15, 1981, the department had not developed an expenditure plan for the funds appropriated by Chapter 569. It has, however, issued a request for proposal for new ICF-DD(H) programs. The deadline for responses to this RFP is February 6, 1981. The responses to the RFP will form the basis of the department's expenditure plan for the funds.

Because formal admissions criteria and reimbursement rates have not been

established for the small ICF-DD(H), we have no basis to analyze the fiscal implications of the small ICF-DD(H) program. We recommend that the Department of Developmental Services, with the cooperation of the Department of Health Services, include estimates of the fiscal effect of small ICF-DD(H) facilities in the May Revision of Estimates.

Special Pilot Projects

Item 297 of the Budget Act of 1980 appropriated $750,000 to the department for special pilot projects. Budget Act language required that these funds "be used for funding three regional center pilot projects demonstrating a request for proposal model, testing client-specific funding as distinct from facility rates in decreasing inappropriate hospital placements." The Budget Act requires the department to implement the projects by January 1, 1981.

The department informs us that the request for proposal is currently being reviewed by the Department of Finance. After review and comments by the state council and area boards, regional centers will be given 30 days to submit grant proposals. The department states that a portion of the Budget Act appropriation will be encumbered in the current year. Any unencumbered balance will be proposed for carryover into 1981–82. The budget proposes no new funds for these projects in 1981–82.

Chapter 1253 Diversion Program

We recommend that the administration present testimony at budget hearings justify termination of funding for the Chapter 1253 Diversion program for mentally retarded offenders.

Chapter 1253, Statutes of 1980, established legal procedures whereby a mentally retarded person charged with a misdemeanor offense could be diverted to a regional center for treatment and habilitation. The act also appropriated $350,000 to the department for diversion-related treatment and habilitation services. The department is currently preparing an implementation plan which will request regional centers to submit proposals for the remainder of 1980–81 and for 1981–82.

No new funds are proposed for the diversion program in 1981–82. Furthermore, the budget proposes to terminate Chapter 1253 funding to reimburse court-appointed public defenders to represent mentally retarded persons accused of misdemeanors, for a savings of $130,000. We recommend that the administration present testimony at budget hearings justifying its decision to discontinue funding for this program.

High-Risk Infant Follow Up Projects

The High-Risk Infant Follow Up projects were established in 1978–79 on a demonstration basis to test the effectiveness of providing follow up health and social services in preventing developmental disabilities and delays in high-risk infants, primarily low birth-weight infants released from neonatal intensive care units. Due to contracting delays, the programs did not become operational until 1979–80. In 1979–80 and 1980–81, DDS received allocations of $1,006,324 to operate five projects providing follow up services to approximately 900 infants.

In addition to contracting for client services, DDS developed an evaluation design to determine the effectiveness of these projects. The Supplemental Report to the Budget Act of 1980 required DDS to submit the results of this evaluation to the Joint Legislative Budget Committee by December 1, 1980. As of January 15, 1980, the report was being reviewed by the Department of Finance.

Language in Item 297 of the Budget Act of 1980 transferred responsibility for administering these programs to the Department of Health Services effective October 1, 1980. The projects currently are being administered by the Maternal and Child Health program. The Department of Health Services has proposed no funding for these projects in 1981–82.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

E. STATE HOSPITALS

1. All State Hospitals

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 appropriation of $500,969,636 from the General Fund for support of the state hospitals in 1981–82. This is a decrease of $4,697,309, or 0.9 percent, below estimated current year expenditures. Total expenditures, including those supported by reimbursements, are proposed at $514,192,146, which is a decrease of $5,305,217, or 1.0 percent, below estimated current year expenditures. The proposal includes a "special adjustment" reduction of $5,862,572 made by the Department of Finance to the hospitals' budgets, of which $1,792,781 applies to hospitals operated by the Department of Mental Health and $4,069,791 applies to hospitals operated by Developmental Services.

Table 21 identifies hospital expenditures, by program, since 1977–78.

Table 21
State Hospital Expenditures
All Programs
1977–78 to 1981–82
(in millions)

	Actual			*Estimated*	*Proposed*[a]
	1977–78	*1978–79*	*1979–80*	*1980–81*	*1981–82*
1. *Programs for Developmentally Disabled*					
General Fund Expenditures	$215.8	$232.7	$278.1	$309.5	$299.4
Percent Change from Prior Year	—	7.8%	19.5%	11.3%	−3.3%
2. *Programs for the Mentally Disabled*					
a. Judicial Commitments					
General Fund Expenditures	$35.4	$45.8	$52.8	$60.3	$62.9
Percent Change from Prior Year	—	29.4%	15.3%	14.2%	4.3%
b. Local Programs					
General Fund Expenditures	$96.7	$108.0	$127.5	$135.9	$138.6
Percent Change from Prior Year	—	11.7%	18.1%	6.6%	2.0%
c. Total General Fund Expenditures	$132.1	$153.8	$180.3	$196.2	$201.5
Percent Change from Prior Year	—	16.4%	17.2%	8.8%	2.7%
3. *Both Programs*					
a. Total General Fund Expenditures	$347.9	$386.5	$458.4	$505.7	$500.9
Percent Change from Prior Year	—	11.1%	18.6%	10.3%	−0.9%
b. Total Reimbursements	$17.0	$10.6	$11.0	$13.8	$13.2
Percent Change from Prior Year	—	−37.6%	3.8%	25.5%	−4.3%
c. Total Expenditures	$364.9	$397.1	$469.4	$519.5	$514.2
Percent Change from Prior Year	—	8.8%	18.2%	10.7	−1.0

[a] Includes special adjustment reductions of $5,812,572.

The hospitals are requesting 18,446.4 positions for 1981–82, a decrease of 553.5

below the 1980–81 authorized level. Table 22 displays, by department, the positions requested for 1981–82 and those authorized for the two previous years.

Table 22
State Hospital Positions
All Programs
1979–80 to 1981–82

	Actual 1979–80	*Estimated 1980–81*	*Projected[a] 1981–82*
1. *Developmental services*[b]			
Number of positions	16,223.6	16,237	15,760.4
Percent change	7.3%	0.1%	−2.9%
2. *Mental health*			
Number of positions	2,489.3	2,762.9	2,686.4
Percent change	−1.0%	11.0%	−2.8%
3. *Combined Programs*			
Total positions	18,713.4	18,999.9	18,446.4
Percent change	6.1%	1.5%	−2.9%

[a] Includes reductions of 151.7 made in special adjustments.
[b] Includes positions which serve mentally disabled clients who are in hospitals managed by the Department of Developmental Services.

Population Projections

The budget projects that the hospital population will decline from 12,966 at the end of the current year to 12,306 by the end of the budget year, a reduction of 660, or 5.1 percent. Table 23 shows hospital populations at fiscal year end from 1977–78 to 1981–82, as reported in the Governor's Budget.

Medi-Cal Revenues

Background. Revenue from the Medi-Cal program offset a major portion of the cost of services provided to hospital clients meeting Medi-Cal eligibility standards. The administration estimates that revenues from Medi-Cal will equal $223,414,541 in 1981–82, of which 50 percent will come from federal funds and 50 percent will come from the General Fund. The revenue will offset approximately 43 percent of state hospital costs.

In order for hospitals to be eligible for Medi-Cal revenues, federal law requires 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 the federal Department of Health and Human Services (HHS). To obtain certification, HHS requires that hospitals (a) maintain sufficient staff to care for patients and (b) care for clients in facilities which meet environmental and fire/life safety requirements.

Decertification

In the fall of 1977, the federal government decertified eight of the eleven state hospitals, citing deficiencies in staffing levels and hospital facilities. The Departments of Mental Health and Developmental Services submitted plans of corrections to HHS to remedy the deficiencies. These plans required increased staff and renovation of hospital facilities.

Staffing Increases. In an effort to meet certification requirements, the Legislature authorized staffing augmentations of 3,054 level of care positions and $38 million during the 1977–78 fiscal year. The 1978–79 budget proposed a further staff augmentation of 214 level of care positions and $3 million. The Legislature rejected

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 23
State Hospital Inhospital Population
at End of Fiscal Year
1977–78 to 1981–82

	Actual			Estimated	Proposed
	1977–78	*1978–79*	*1979–80*	*1980–81*	*1981–82*
Mentally Disabled					
Atascadero	972	945	963	973	973
Metropolitan	842	769	788	850	850
Subtotal	1,814	1,714	1,751	1,823	1,823
Developmentally Disabled					
Agnews	911	907	968	1,065	1,125
Fairview	1,459	1,381	1,333	1,299	1,150
Lanterman	1,560	1,469	1,404	1,366	1,200
Porterville	1,644	1,599	1,563	1,513	1,535
Sonoma	1,877	1,804	1,579	1,364	1,400
Subtotal	7,451	7,160	6,847	6,607	6,410
Combined Populations					
Camarillo					
Developmentally Disabled	575	522	535	529	620
Mentally Disabled	944	939	857	562	462
Hospital Total	1,519	1,461	1,392	1,091	1,082
Napa					
Developmentally Disabled	429	392	387	385	350
Mentally Diabled	1,360	1,352	1,351	1,093	1,003
Hospital Total	1,789	1,744	1,738	1,478	1,353
Patton					
Developmentally Disabled	314	292	280	295	—
Mentally Disabled	912	943	944	913	903
Hospital Total	1,226	1,235	1,224	1,208	903
Stockton					
Developmentally Disabled	605	589	651	714	690
Mentally Disabled	99	112	81	45	45
Hospital Total	704	701	732	759	735
Subtotal	5,238	5,141	5,086	4,536	4,073
Developmentally Disabled	(1,923)	(1,795)	(1,853)	(1,923)	(1,660)
Mentally Disabled	(3,315)	(3,346)	(3,233)	(2,613)	(2,413)
Totals					
Developmentally Disabled	9,374	8,955	8,700	8,530	8,070
Mentally Disabled	5,129	5,060	4,984	4,436	4,236
Grand Total	14,503	14,015	13,684	12,966	12,306

the proposal, however, after it became apparent that the standards used by the Department of Health Services in assessing staffing needs differed from those used by the Departments of Mental Health and Developmental Services. The Legislature subsequently passed ACR 103, which required the Department of Health Services, in conjunction with the Departments of Developmental Services and Mental Health, to develop a single set of standards for the state's hospitals. The

departments submitted new staffing standards for level-of-care positions in the spring of 1979 and fall of 1980. Based on the new standards, the Legislature authorized 642 new positions and $9.8 million in the 1979 Budget Act, and 187.5 positions and $3 million in the 1980 Budget Act. The administration is requesting $1.8 million and 98.4 new level-of-care positions to satisfy staffing requirements for the 1981 budget year.

Neither department has submitted standards for non-level-of-care staff.

Facility Renovation. The Legislature has appropriated over $183 million since 1976–77 to renovate state hospital facilities. Detailed information on these renovations is available in our analysis of the departments' capital outlay requests in Items 430-301-036 and 444-301-036.

To avoid renovating buildings which will be unused in the future because of the hospital's declining populations, the departments received authorization from the Department of Health Services to remodel buildings for the estimated June 1982 populations. The Department of Developmental Services estimated that its population would decline to 8,070 by that date, while the department of Mental Health estimated a decline to 3,636. As Table 22 shows, the population projections contained in the budget indicate that (1) by 1982 the mentally disabled population will exceed the projected 3,636 by 600 and (2) the developmentally disabled population must decline by 460 in the budget year to reach the 8,070 level—a decline which exceeds any that has occurred in recent years. We discuss the departments' population estimates in greater detail in our analysis of their funding requests in Items 430-101-001(m), 440-011-001, and 444-101-001(b).

Certification Status. All programs for the developmentally disabled were certified for Medi-Cal eligibility as of February 6, 1981. Except for certain programs at Stockton, Patton and Napa State Hospitals, the programs for the mentally disabled remain decertified.

2. Cross-Cutting Issues

A number of issues in the state hospitals concern both the Departments of Mental Health and Developmental Services. Where the Legislature may make a decision which applies equally to both departments, we have integrated the discussion of the issue in this section. We discuss issues which affect the mentally disabled and developmentally disabled state hospital programs separately, beginning on page 886 for the mentally disabled, and page 860 for the developmentally disabled.

Final ACR 103 Reports Overdue

We recommend that the Legislature direct the Departments of Mental Health and Developmental Services to report to the fiscal committees during budget hearings on the status of the final ACR 103 reports.

In the reports written in response to the requirments of ACR 103, the Departments of Mental Health and Developmental Services indicated that they would submit final reports by January 1980 and October 1979, respectively, which would provide the Legislature the following information:

1. a description of the level of care staffing standards approved by the Legislature,
2. the staffing allocation for fiscal year 1980–81 generated by the new staffing standards,
3. revised relief factors for level-of-care staff and non-level-of-care staff for hospital programs,
4. a summary description of the control mechanism developed to prevent diversion of level-of-care staff to off-ward functions, and
5. staffing standards for the non-level-of-care functions in the hospitals.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

To our knowledge, the departments have no plans to submit to the Legislature the final ACR 103 reports which they promised to submit over a year ago.

Since 1976–77, the Legislature has appropriated over $231 million to upgrade staffing and facilities in the state hospitals. To assure that the gains in staffing which have been made in recent years are safeguarded, it is important for the departments to (1) develop a control mechanism to prevent diversion of level-of-care staff, (2) develop staffing standards for non-level-of-care staff, and (3) maintain accurate relief factors. We recommend that the Departments of Mental Health and Developmental Services be prepared to describe the status of the final report during budget hearings.

Non-Level-Of-Care Positions

We withhold recommendation on the department's request in Item 430-101-001(m) for $106,635,430 to support 5,914 non-level-of-care positions, pending receipt of the non-level-of-care staffing standards required by ACR 103.

The budgets of the Departments of Mental Health and Developmental Services propose appropriations of $134,325,837 to support 7,062.3 non-level-of-care positions in the state hospitals. Table 24 shows the appropriations and number of positions proposed by each department for the budget year. The budget also proposes a "special adjustment" reduction of 152 positions and $3,489,837 in staffing for the state hospitals.

Table 24
State Hospitals
Non-Level-of-Care Positions
by Department
1981–82

	Positions	*Amount*
Mental Health		
Before Adjustment	1,198	$28,917,074
Special Adjustment	−49	−1,226,667
Total	1,149	$27,690,407
Developmental Services		
Before Adjustment	6,017	$108,898,646
Special Adjustment	−103	−2,263,216
Total	5,914	$106,635,430
Before Adjustment	7,214	$137,815,720
Special Adjustment	−152	−3,489,883
Total	7,062.3	$134,325,837

The positions shown for the Department of Developmental Services provide services to both the mentally disabled and developmentally disabled hospital programs.

Approximately 38 percent of the positions in the state hospitals perform non-level-of-care functions. These positions provide administrative and support services such as plant opertions, laundry, and other housekeeping services.

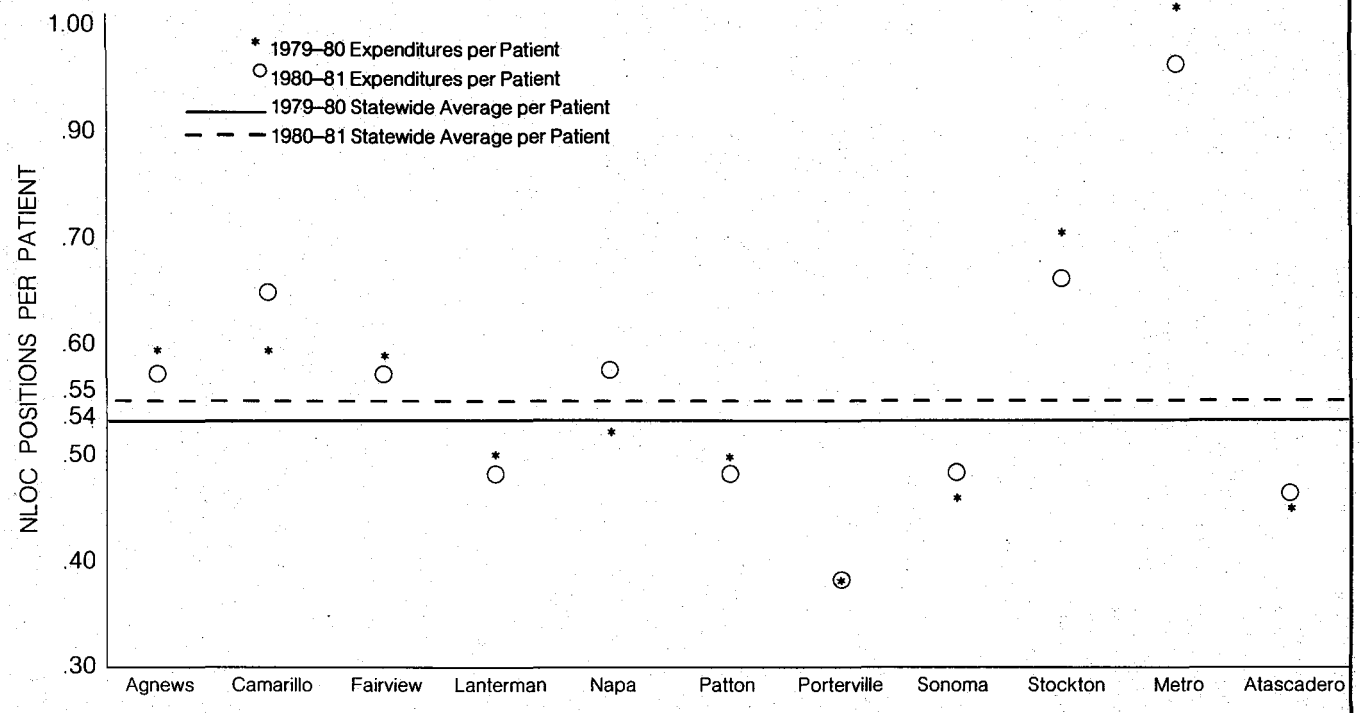
Neither department uses objective criteria to determine staffing needs for non-level-of-care staff. Requests for staff are based upon the individual hospital's prior year budgets. Because the hospitals' base allocations were developed over time on an ad-hoc basis, without reference to any systemwide standards, great variation in the level of staffing for non-level-of-care positions exists among the hospitals.

Staffing needs for some non-level-of-care functions, such as plant operations are not directly related to population levels. Nevertheless, an analysis of the total

Chart 2

Variance in Distribution of Non-Level of Care Positions in State Hospitals

Positions per Patient
1979–80 and 1980–81



Source: Department of Developmental Services and Department of Mental Health

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

number of non-level-of-care staff available per client provides a measure of the variance in staffing which exists between hospitals. Chart 2 shows by hospital, the staff available per client in 1979–80 and 1980–81. Chart 2 shows that the variance in the number of staff available per client in 1979–80 ranged from a low of .48 per patient at Porterville State Hospital to a high of 1.02 at Metropolitan.

Table 25 displays the cost implications of applying the low and high non-level-of-care staffing ratios to all hospitals. Table 25 shows that if all hospitals had the same non-level-of-care staff per client as that which existed at Porterville in 1979–80, non-level-of-care positions and funding statewide could be reduced by 2,300 positions and $45.9 million, respectively. In contrast, if all hospitals were to maintain the same ratio that Metropolitan had in 1979–80, the Legislature would have to authorize 6,645 new positions and $132.8 million.

Table 25
Fiscal Implications of Variance
of Non-Level-Of-Care Staffing Ratios in State Hospitals[a]

	Staff/Client Ratio	*Ratio Applied to all Hospitals*	*Position Difference*	*Impact on General Fund (in millions)[c]*
1979–80				
Low[d]	0.38	5,212	2,300	−$45.9
High[e]	1.02	14,157	6,645	132.8
Average (Actual)	0.54	7,512	—	—
1980–81[b]				
Low[d]	0.38	5,021	−2,250	−50.0
High[e]	0.92	12,753	5,462	+109.1
Average (Estimate)	0.55	7,271	—	—

[a] Using average population
[b] Assumes budget's 1980–81 population estimates
[c] Applies 1981–82 salary for non-level-of-care positions—($19,981).
[d] Porterville average
[e] Metropolitan average

Standards Required

ACR 103 required the Department of Health Services, in conjunction with the Departments of Mental Health and Developmental Services, to establish standards for "*all* classes of personnel working at (the) hospitals." (emphasis added)

In their responses to ACR 103, the Department of Mental Health stated that it would submit the standards in January 1980, while the Department of Developmental Services stated that its standards would be submitted by October 1979. As of the date this analysis was prepared, neither department has submitted non-level-of-care staffing standards. Staff inform us that during 1979–80 draft reports were prepared which proposed standards for some functions and established a time line for development of the remaining functions. According to staff, the drafts are presently "under review."

In the absence of objective standards for such positions, we are unable to recommend to the Legislature the funding level requested to support necessary services. Consequently, we withhold our recommendation on funds requested for the Department of Developmental Services in Item 430-101-001(m) and also for funds requested for the Department of Mental Health in Item 444-101-001(a) (see page 885 of the Analysis). If the departments submit their proposed standards to the Legislature prior to budget hearings, we will prepare a supplemental analysis of

this aspect of the departments' budget requests.

In the event that the department fails to submit the standards by that date, we recommend that the Legislature reduce the variance by employing a method similar to that used in the Medi-Cal and Welfare programs for reducing the budgets of counties whose administrative costs are far above the state average. Under this methodology, the budgets of individual hospitals whose staff to client ratio exceeds the hospital average would be reduced over a three year period to a level which is only ten percent above the 1979–80 average for all the hospitals. We estimate that by the end of the third year, this would result in a reduction of 419 positions and a savings estimated at $8.4 million.

Operating Expenses

We withhold recommendation on the $50,575,351 requested in Item 430-101-001(m) by the department for state hospital operating expenses pending receipt of (1) required reports on operating expenses and (2) justification of the 1981–82 population projections.

The budget proposes a total of $61,722,129 for operating expenses and equipment (OE&E) in the hospitals in 1981–82. Table 26 shows the amounts budgeted by the Departments of Mental Health and Developmental Services for this purpose. The table also shows the "special adjustment" reductions of $2,362,639 proposed by the budget for 1981–82.

Table 26
State Hospitals
Operating Expenses and Equipment
by Department
1981–82

	Amount
Department of Mental Health	
Before Adjustment	$11,702,892
Special Adjustment	−556,114
Total	$11,146,778
Department of Developmental Services	
Before Adjustment	$52,381,926
Special Adjustment	−1,806,575
Total	$50,575,351
All Hospitals	
Before Adjustment	$64,084,818
Special Adjustment	−2,362,689
Total	$61,722,129

The amount requested by the Department of Developmental Services hospitals will support operating expenses for both the mentally and developmentally disabled programs in DDS operated hospitals.

Traditionally, the departments do not adjust hospital operating expenses to reflect the impact of population declines. Instead, they generally request the amount in the budget base, adjusted for price increases. As with non-level-of-care positions, the allocation of appropriated funds to the individual hospitals has been based on the amounts allocated to each in the prior year (although in the last two years, the Department of Developmental Services has begun to allocate some OE&E funds, such as food, based on population).

Population size is not the only factor which should determine OE&E allocations. Nevertheless, analysis of the OE&E funds available per client is one measure of the variance in funds available to individual hospitals. Chart 3 shows the amount of OE&E funds available by hospital per client for 1979–80 and 1980–81.

Chart 3

Variance in Distribution of Operating Expenses and Equipment in State Hospitals

Amount/Patient 1979–80 and 1980–81

Source: Department of Developmental Services
Department of Mental Health

Chart 3 shows that the variance in OE&E expenditures ranges from a low of $3,034 per client in 1979–80 at Porterville State Hospital to a high of $7,037 at Metropolitan. Table 27 displays the fiscal implications of applying the low and high operating expense ratios to all hospitals. The table shows that if all hospitals had the same OE&E allocation per client as Porterville had in 1979–80, total OE&E allocations could be reduced by $14.7 million. If all hospitals had the same OE&E allocation per client as Metropolitan, however, total OE&E expenditures would have to be increased by over $40 million.

Table 27

Fiscal Implications of Existing Variance in OE&E Allocations in State Hospitals [c]

	OE&E/ Clients	*Ratio Applied to all Hospitals (in millions)*	*Impact on General Fund (in millions)*
1979–80			
Low [a]	$3,034	$42.0	−$14.7
High [b]	7,037	97.5	+40.8
Average (Actual)	4,095	56.7	—
1980–81 [d]			
Low [a]	3,617	48.2	−10.9
High [b]	6,154	82.0	+22.9
Average (Estimate)	4,435	59.1	—

[a] Porterville average
[b] Metropolitan average
[c] Using average population
[d] Assumes budget's 1980–81 population estimates

Reports required. Recognizing the impact that declining hospital populations should have on hospital operating expenses, the Legislature added language to the Supplemental Report of the 1980 Budget Act requiring the departments to report by November 1, 1980 on all cost categories potentially affected by population declines, and to explain how they would reduce expenditures in the future. As of February 1, 1981 neither department had submitted its report.

The Legislature further requested that the Department of Developmental Services specifically report on two categories of operating expenses—food and utility costs. These reports were due on December 15, 1980. At the time this analysis was written, these reports had not been received. The director of the department indicated that the reports were completed and that they would be transmitted to the Legislature by January 9, 1981. As of February 6, the reports had not been forwarded.

Without (1) the information included in these reports and (2) an accurate estimate of population levels, we cannot assess funding requirements for operating expenses in the hospitals. Consequently, we withhold recommendation on the requests pending receipt of the required reports and justification for the department's population estimates. The recommendation would apply to the $50,575,351 requested by the Department of Developmental Services in Item 430-101-001 (m) and $11,146,778 requested by the Department of Mental Health in Item 444-101-001 (a) (see page 885 of the Analysis).

In the event that the administration fails to provide the reports prior to budget hearings, we recommend that the Legislature reduce the variance by employing a method similar to that used in the Medi-Cal and Welfare programs for reducing

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the budgets of counties whose administrative costs are far above the state average. Under this methodology, the budgets of individual hospitals whose ratio of operating expenses per client exceeds the hospital average would be reduced over a three-year period to a level which is only ten percent above the 1979–80 average for all the hospitals. This method would result in a reduction of approximately $3 million by the third year.

Automated Pharmacy System

We recommend (1) deletion of three positions and $718,274 requested by the department in Item 430-001-001 for implementation of an automated pharmacy system in the department's nine state hospitals. We further recommend that the Departments of Developmental Services and Mental Health submit to the fiscal committees prior to budget hearings an analysis of the costs and benefits of implementing each system in all eleven hospitals.

Background. The budget proposes eleven positions and $1,372,346 for automation projects in the state hospitals. The Department of Developmental Services is requesting three positions and $718,274 to automate pharmacy functions in its nine hospitals, and the Department of Mental Health is requesting eight positions and $654,072 to automate the admissions and discharge functions at Metropolitan State Hospital.

In its 1980–81 budget, the Department of Developmental Services requested $342,963 to develop and implement an automated pharmacy system in its nine state hospitals. At the same time, the Department of Mental Health requested $309,639 to test an automated client information system at one hospital. The Department of Mental Health indicated that it intended to implement the system in the five other state hospitals serving mentally disabled clients.

In reviewing the departments' requests, the Legislature learned that (1) the two departments had not worked together in developing automation plans for the state hospitals and (2) the two departments' were proposing to implement substantially different automation systems. Consequently, the Legislature (1) appropriated sufficient funds to permit each department to pilot test its proposal in one state hospital and (2) adopted language in the Supplemental Report to the 1980 Budget Act requiring the two departments to submit a detailed joint hospital automation plan to fiscal committees by December 1, 1980.

DDS Pilot. The Department of Developmental Services selected Fairview State Hospital as the location for its pilot project. It has installed a mini-computer at Fairview and a software package procured from Medical Engineering company. The department selected the software package after conducting a market survey in which the pharmacists at each of the 11 state hospitals rated several software packages designed for pharmacy automation. Presently, department hospital staff are testing the system to determine what modifications are required. The vendor is scheduled to return to Fairview in early February to modify the system according to the identified requirements.

The budget requests $107,274 to support three staff positions and $611,000 to lease nine computers and purchase software for the department's other eight hospitals.

DMH Pilot. DMH selected Metropolitan State Hospital as the location for its pilot project. The department procured the Patient Care System (PCS) from International Business Machines, which enables automation of numerous hospital functions (including pharmacy). During the pilot phase of the project, staff have been attempting to implement the admissions, discharge and patient tracking element of PCS. The department decided to rely on the Health and Welfare Agency Data Center for computer services, rather than install a computer at the hospital. Because the Data Center was unable to provide the reliability which

hospital staff require, the pilot has been suspended. Of the $654,072 the department is requesting in the budget year, $367,324 would be used to purchase a computer for Metropolitan. The $268,748 remaining would support eight staff for the project.

Coordination Necessary. The departments have yet to submit the joint hospital automation plan to the Legislature which was due by December 1. In late December, we asked the directors of the two departments when the Legislature would be receiving the report. They replied that the report was completed and that it was being reviewed by the administration. On January 15, we were supplied a draft of the report, which is apparently still under review. The draft report indicated that the departments would maintain their separate automation approaches including the use of separate software programs.

As part of the market survey conducted prior to the selection of the Medical Engineering system, the Department of Developmental Services asked the pharmacy staff in the 11 state hospitals to evaluate the merits of the pharmacy element of the Patient Care System. The PCS was rated second of the 12 systems considered. The department does not consider PCS a suitable alternative for the department hospitals, however, primarily because the system requires installation of the admissions and discharge element before additional functions—such as pharmacy —may be automated. Therefore, the department elected to install the Medical Engineering system.

Because of the significant cost of maintaining software programs, it would be to the state's advantage if both departments use the same basic software. Doing so would also be consistent with the state's EDP policy, as expressed in the Government Code and the State Administrative Manual, which encourages standardization and the multiple use of software systems. We recommend that, prior to budget hearings, the departments prepare jointly a report analyzing the costs and benefits of implementing each system. In their analysis, the departments should include the marginal costs of automating additional hospital functions.

Automation of hospital functions can result in increased efficiency and large cost savings. However, automation itself is a costly process, and should not occur in the absence of planned and coordinated development. We do not recommend approval of the funds requested for automation of the hospitals in the absence of a plan which reconciles the different automation approaches of the two departments.

Consequently, we recommend deletion of three positions and $718,274 requested by the Department of Developmental Services in Item 430-001-001 for implementation of an automated pharmacy system. We also recommend deletion of eight positions and $654,072 requested by the Department of Mental Health in Item 444-001-001 for implementation of the patient care system at Metropolitan State Hospital (see page 890).

Mentally Disabled Programs in Developmentally Disabled Hospitals

We recommend that the Directors of the Departments of Developmental Services and Mental Health appear jointly before the fiscal committees to justify the proposed reimbursement level for services provided to clients with mental disabilities in hospitals operated by the Department of Developmental Services. We further recommend that Budget Bill language be adopted requiring the departments to report on the combined population levels in the joint hospitals.

A large number of mentally disabled clients receive state hospital services in hospitals operated by the Department of Developmental Services. For example, at the end of 1979–80, the state hospitals operated by the Department of Developmental Services had 3,233 beds for the mentally disabled. In contrast, the Department of Mental Health's two hospitals had 1,751 beds. Thus, 65 percent of the beds

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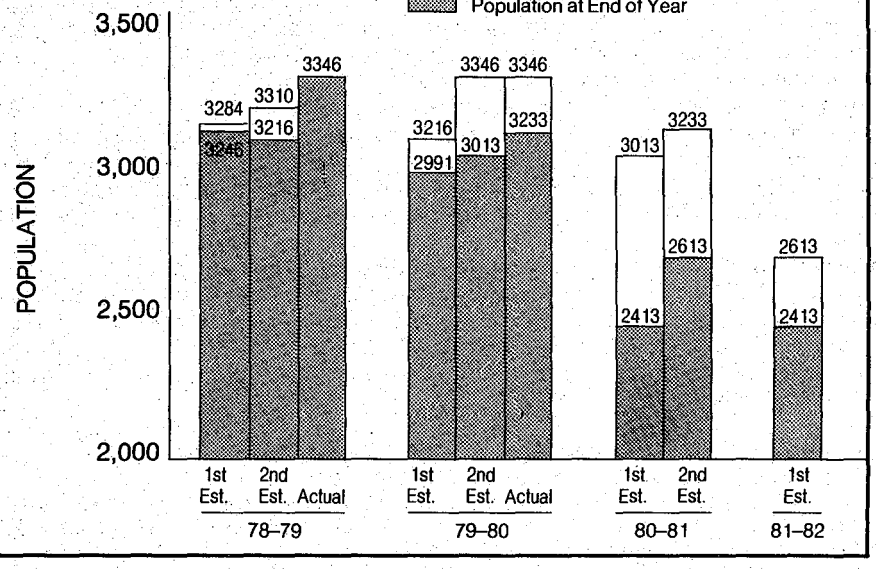
for mentally disabled clients were in hospitals operated by the Department of Developmental Services.

Population Estimates and Budget Requests. The Department of Developmental Services calculates the reimbursement level required from the Department of Mental Health for the mentally disabled clients in its hospitals using population estimates supplied by the Department of Mental Health. Chart 4 displays the department's estimates for 1979–80 through 1981–82. Chart 4 shows that the department has consistently overestimated the decline in population during the fiscal year, and consistently underestimated the population at year end. The estimates for 1979–80 illustrate this. Chart 4 shows that the Department of Mental Health originally proposed to reduce its 1979–80 population in the Developmental Services hospitals from 3,216 to 2,991 (a decline of 225). Population, however, actually *increased* by 17, to 3,233. Similarly, the original estimate for 1980–81 assumed that the population would decline by 600, from 3,013 to 2,413. The 1981–82 budget, however, indicates that the Department of Mental Health has revised its estimates and now expects the 1980–81 population to decline from 3,233 to 2,613, which is 200 above the original estimate for 1980–81. The department's actual November population count, however, was 3,396, or 63 *above* the July 1, 1980 level.

Chart 4

Population Decline of Mentally Disabled Clients in DDS Hospitals 1978–79 to 1981–82



The department's budget for 1981–82 proposes to reduce the population from 2,613 to 2,413. This proposal would require the department to reduce its population from 3,396 in November of 1980 to 2,413 in June of 1982, a decrease of 983 or 28.9 percent, in nineteen months. Given the actual population changes which have occurred in recent years, it seems imprudent to base the budget for 1981–82 on this projection.

Deficiency in 1979–80. The hospitals operated by the Department of Develop-

mental Services experienced a $7.5 million deficiency in 1979-80. To fund the deficiency, the department (1) received a $2.7 million deficiency appropriation under Chapter 251, Statutes of 1980 (SB 1853) and (2) transferred $4.8 million from upspent regional centers funds. Our analysis indicates that the Department of Mental Health's underestimate of the number of mentally disabled clients residing in the Department of Developmental Services hospitals may be responsible for a major portion of the deficiency.

The 1981–82 budget document shows that the Department of Mental Health transferred $112,257,852 to the Department of Developmental Services in 1979–80 for the costs of its clients. The Department of Developmental Services reports, however, that it has received only $110,546,148. Furthermore, the Department of Developmental Services maintains that the shortfall from Department of Mental Health is even larger than $1,711,704. It recently completed final adjustments to its 1979–80 accounting records. These adjustments distribute actual hospital expenditures in 1979–80, based on the actual hospital population served. The final adjustments indicate that the Department of Mental Health should have reimbursed the Department of Developmental Services for $116,419,386 in costs, indicating that the Department of Mental Health owes the department $5,873,238 in addition to the $110,546,148 DDS has received for 1979–80.

If these figures are accurate, it would appear that the failure of the Department of Mental Health to project its population estimates realistically accounted for $5.9 million of the $7.5 million deficiency. The Department of Mental Health had funds available to pay the deficit. However, because the Departments of Mental Health and Developmental Services disagree on the funding adjustments which should be made during the fiscal year to account for population levels which differ from budgeted levels, the Department of Developmental Services was unable to obtain sufficient funds from DMH to cover the deficit. The Department of Developmental Services then requested funds in the deficiency legislation and transferred regional center savings which would otherwise have reverted to the General Fund.

Implications for 1980–81 and 1981–82. The 1980 Budget Act appropriated $107 million to the Department of Mental Health for transfer to the department of Developmental Services. The budget indicates that $111 million will be transferred in 1981–82 to cover the costs of the Department of Mental Health's clients in the budget year. Because there is no evidence as yet that the budgeted population decline is occuring, these levels of funding appear to be inadequate to cover the costs of the mentally disabled clients in the developmentally disabled hospitals. If appropriate adjustments are not made, the Department of Developmental Services may again request additional General Fund support or have to transfer unexpended funds from the regional centers to the hospitals.

The $111,053,581 which the Department of Mental Health proposes for transfer to the Department of Developmental Services in 1981–82 will not be sufficient to cover the Department of Developmental Services' costs unless the MD population declines by 983 clients by the end of 1982. Given past experience, we question the likelihood that this will occur. Accordingly, we recommend that the Department of Mental Health justify its population estimates to the Legislature by April 1. The department should submit information that describes its plans for accomplishing the reduction. Because the two departments share joint responsibility for the funds budgeted to treat mentally disabled clients in the developmentally disabled hospitals, we further recommend that the department directors appear together before the fiscal committees to justify the amount proposed for transfer in 1981–82.

Currently, Control Section 28.31 requires that the Departments of Mental Health and Developmental Services report separately to the Legislature three times a year on population levels. The language further requires that the departments compare actual population levels to estimated levels. We recommend adop-

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tion of language in Control Section 28.34 which requires the departments to report jointly on state hospital population levels and to include in their report an analysis of the adequacy of funding available to cover hospital costs.

Joint Management Problems

We recommend adoption of supplemental report language requiring the Systems Review Unit of the Health and Welfare Agency to report on the management of the state hospitals.

Since the management of the hospitals was divided in 1978–79, inadequate coordination between the departments has caused numerous inconsistencies and management problems. Examples of the problems are summarized below:

Inconsistent Program Requests. The departments proposed to install two different hospital automation systems in some hospitals in 1980–81. The Legislature directed the departments instead to submit a joint hospital automation plan by December 1, 1980. The plan has not been submitted.

Inequitable Distribution of Resources. Non-level-of-care staff and operating expenses are distributed inequitably among the 11 hospitals. While the department's ACR 103 report acknowledged the inequity in the distribution of resources, the departments do not appear to be working together to resolve the problem.

Problems in Joint Hospitals. The dual responsibility for the hospitals has resulted in numerous management difficulties. For example, plans for energy conservation and comfort conditioning projects at Napa State Hospital have been delayed because the Department of Mental Health has proposed a change in the design temperature of the facilities from 78° to 72°. The Legislature appropriated funds to the Department of Developmental Services based on the need to provide 78° temperature. Licensing and Certification staff have approved the 78° temperature.

We recommend adoption of the following supplemental report language that would require the Systems Review Unit in the Health and Welfare Agency to review the organization structure for and management of the state hospitals.

"The Systems Review Unit of the Health and Welfare Agency shall review the organizational structure and management of the state hospitals and submit a report to the Legislature by December 1, 1981 which (1) describes problems identified by the unit in the course of its review, and (2) recommend solutions to such problems. The unit shall include in its review an examination of the following issues; (a) the departments inaccurate population estimates, (b) the inequitable distribution of non-level-of-care staff, operating expenses and equipment funds, (c) the departments' failure to work together on issues affecting all the hospitals, (d) budgeting problems which result from joint administration of the hospitals, and (e) the particular coordination and management problems that occur in the hospitals with joint populations."

3. Hospitals—Developmental Disabilities Program

The budget proposes $299,408,466 for hospital programs serving the developmentally disabled, which is $10,045,119, or 3.2 percent, below estimated current year expenditures. Table 28 displays General Fund expenditures for this program.

Table 28
State Hospitals
Developmental Disabilities Program
General Fund Expenditures, 1979–80 to 1981–82

	Acutal 1979–80	*Estimated 1980–81*	*Proposed 1981–82*
Expenditures	$278,108,488	$309,453,585	$299,408,466
Change from Prior year	+19.5%	+11.3%	−3.2%

Table 29 shows the adjustments which are proposed to be made to the current year base budget in order to arrive at the level of proposed 1981–82 expenditures.

Table 29
Developmental Disabilities Programs
Analysis of Budget Expenditure Changes
1981–82

1980–81 Adjusted Base		$308,527,585
Merit Salary Adjustment	3,984,258	
Price Increase (Operating Expenses)	2,335,608	
Population Adjustments [a]	−7,284,156	
Special Repairs	629,700	
Leased Space	−26,475	
Budget Change Proposals:		
ACR 103 (physical development and continuing medical care)	1,835,760	
Sonoma Admissions Unit	−101,917	
Lanterman Aftercare Unit	−99,351	
Supernumerary Meals	−65,000	
Patton Transfer	−6,147,755	
Psychiatric Technician Training	+372,871	
Salary Savings Increase	−372,871	
Unit Dose Project	+82,748	
Psychiatric Technicians	−82,748	
Total Adjustments	−5,049,328	
1981–82 Expenditures		$303,478,257
Special Adjustment:		−4,069,791
1981–82 Revised Expenditures		$299,408,466

[a] Population Adjustments

Quarterly Allocation Adjustments	$−5,557,344
Population Adjustment—LOC Staff	−1,726,812
	$−7,284,156

Special Adjustments

The budget includes a reduction of $4,069,791 for "special adjustments". Table 30 details the reductions.

Table 30
State Hospitals
Special Adjustments

Category	*Positions*	*Funds*
Operating Expenses and Equipment	–	$1,806,575
Groundskeeping	26	365,066
Administration	39.7	615,222
Training	27	861,000
Planning	10	421,928
Total	102.7	4,069,791

The Department of Finance will be submitting a budget change letter in February which will provide specific information on these reductions.

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Level-of-Care Reductions

We withhold recommendation on the proposed reduction of 203 level-of-care positions and $1,726,812, pending receipt of the department's justification for the estimated population decline in 1981-82.

The department is proposing a reduction of 203 level-of-care positions and $1,726,812 to adjust staffing levels for the reduced population estimates to be served in 1981-82. Level of care staff are "hands on" treatment personnel, such as nurses, physicians, and psychiatric technicians.

Table 31 shows the department's population estimates for the current and budget year.

Table 31
State Hospital
Population Estimates
Developmentally Disabled Program
1980–81 and 1981–82

	1980–81			*1981–82*		
	July 1980	*June 1981*	*Reduction*	*July 1980*	*June 1981*	*Reduction*
Number	8,700	8,530	−170	8,530	8,070	−460
Percent Decline	-	-	−2.0%	-	-	−5.4%

The department calculates the level-of-care staffing it will require in the budget year on the basis of the population it anticipates for that year. Consequently, accurate estimates of the hospital population are essential if adequate staffing is to be available.

Our analysis indicates that the department's projections of the hospital population for 1981-82 may be underestimated, for the following reasons:

1. A decline of up to 460 clients—the decline projected in the budget for 1981–82 has not occurred since 1970;
2. Last May, the department revised its population estimate for 1980–81 from a projected decline of 402 to 170. At that time, staff reported that community placement of state hospital residents has become increasingly difficult; and
3. The department has been unable to adequately explain how the reduction of 460 will occur. Table 32 shows the components of the decrease according to the budget document.

Table 32
1981–82 Population Decrease
Governor's Budget

Decrease	*Cause*
126	Patton Phase-out
231	Regular Placements by Regional Centers
103	Unspecified
460	Total

Elsewhere in this analysis (pages 859 and 829, we review the Patton Phase-Out and regional center placements. Our analysis indicates that the department may not be able to accomplish its objectives.

We believe that the department should thoroughly justify its ability to achieve the 460 patient reduction it has proposed for the budget year *before* the department's proposed reduction of level-of-care staff is approved. Consequently, we

must withhold recommendation on the department's request at this time, and recommend that the department submit a report to the fiscal committees by April 1 which either describes the means by which a population decline of 460 will be attained or revises the estimated decline and the funding requested to serve the population level anticipated in the budget year.

Patton Phase Down

We withhold recommendation on (1) the reduction of 206.9 positions and $5,241,826 proposed in Item 430-101-001(m) to account for the Patton phase down, and (2) the $2,381,310 budgeted in the same item to place Patton residents in community programs, pending receipt of the department's April report on population. We further recommend that the department include a special section on the Patton phase down in its report.

The budget proposes a reduction of 206.9 hospital positions and $5,241,826 from the state hospital budget to reflect the phase down of programs for the developmentally disabled at Patton State Hospital. The budget also proposes $2,381,310 to fund community placements for Patton State Hospital clients.

Background. Patton State Hospital provides services to both the mentally and developmentally disabled. As of November 25, 1980, Patton was serving 275 developmentally disabled and 951 mentally disabled clients.

On May 15, 1980, the Department of Finance submitted a 1980–81 budget change letter to the Legislature requesting authorization to phase down the program for the developmentally disabled at Patton State Hospital. Specifically, the department proposed that, prior to July 1982, it would (1) place 159 of the 282 developmentally disabled clients residing at Patton on July 1, 1980, in special community programs and (2) transfer the remaining 123 clients to other state hospitals. Because the Department of Developmental Services was unable to provide the Legislature with specific information on client placement and the fiscal consequences of the phase down, the Legislature adopted language in Item 541 of the Budget Act of 1980 prohibiting the department from implementing the plan unless it submitted a report to the Legislature by November 1 which provided specific information on client placement and fiscal consequences of the phase-down. The language authorized the department to proceed with the plan only after the report had been approved by the Department of Finance and after a 30 days' advance notice had been given to the Chairperson of the Joint Legislative Budget Committee and the fiscal committees. The department submitted the approved report to the Legislature on November 20, 1980.

Department's report. The department's report presented a detailed plan for the phase down. The plan included data on (1) types and costs of services which would be provided to the 159 clients being placed in the community, (2) the placement locations and costs for the 82 clients being relocated to Camarillo State Hospital, (3) a specific timeline for implementation of the phase down, and (4) an analysis of the costs and benefits of the phase down. The department's analysis indicated that implementation of the phase down would result in annual General Fund savings of approximately $7.7 million, beginning in 1982–83. After reviewing the report, the Chairman of the Joint Legislative Budget Committee in a letter dated December 18, 1980, notified the director of the department that, while he had some questions on the details of the plan, it appeared that the issues could be addressed in the department's budget proposal in 1981–82 and 1982–83. Consequently, the Chairman indicated that he had no basis for recommending that the department not proceed with the phase down. The department began transferring clients out of the developmentally disabled program immediately thereafter.

Budget proposal. Table 33 details the adjustments to the department's budget proposed for the Patton phase out in 1981–82.

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Table 33
1981–82 Patton Phase Out Fund Adjustments (General Fund)

	Positions	*Amount*
I. State Hospital Adjustments		
Patton Developmentally Disabled program	−303.9	−9,056,135
Patton Mentally Disabled program	2.0	1,324,802
Camarillo Developmentally Disabled Program	95.0	2,055,753
Special Items of Expense		433,754
Red Circle Rates		(288,900)
Onetime Overallocations		(144,854)
Total	−206.9	−$5,241,826
II. Community Placement Costs		$2,381,310
San Diego Regional Center		(1,058,688)
Inland Regional Center		(1,322,622)
Total Adjustment	−206.9	−$2,860,516

Our analysis has identified the following deficiencies in the department's proposal.

1. ***The department has not developed a contingency plan which details placement alternatives for the Patton clients in the event that implementation problems occur.*** Placement of 159 severely disabled clients into community facilities will be a complicated and difficult process. The department has worked extensively with Inland Counties and San Diego regional centers, which are responsible for planning and developing the community facilities. However, (1) the number of clients to be placed is large—only 44 less than the total estimated decline from all state hospitals for 1980–81—and (2) the types of clients being placed are generally more seriously disabled than those routinely placed. Unforeseen problems could delay or prevent the placement of clients according to schedule. For example, the unexpected closure of a large residential facility in the San Diego or Inland Counties catchment areas could severely impair the ability of the regional centers to develop new programs for the Patton residents according to the schedule submitted in November 1980. In addition, our discussions with staff in the two regional centers indicate that the community placement process is already two months behind the placement schedule submitted to the Joint Legislative Budget Committee just three months ago.

In a letter dated December 9, 1980, we asked the director whether he had prepared a contingency plan in the event that implementation problems occurred. In his January 9, 1981, response, the director indicated that a contingency plan was unnecessary because the phase out plan provided six months' slippage.

2. ***The budget does not include funds to cover the cost of 47 clients being transferred to state hospitals other than Camarillo.*** The phase out plan failed to account for the costs of 47 clients being transferred to hospitals other than Camarillo. The department estimates maximum costs for these clients at $334,339 in 1980–81, and at $527,811 during 1981–82 and subsequent yeras. The department director informed us that the costs of treating these clients will be funded from existing resources.

3. ***The department's cost estimate for new community programs in 1981–82 is unreliable.*** The department's estimates for community programs are based on discussions held between the two regional centers and community service vendors in September of 1980. Since then, some of the vendors have withdrawn from the community proposals, and the regional centers have solicited bids from other vendors. Regional center staff have informed us that they are currently reestimating the 1981–82 costs. Further, the department's proposal is inconsistent in the way it budgets federal reimbursements. The Inland Counties proposal assumes full

federal financial participation under Title XIX (Medi-Cal) for 1981–82, while San Diego's proposal assumes no Title XIX funds until 1982–83.

Because of the deficiencies discussed above, we withhold recommendation on the funding adjustments for the Patton phase down. We recommend that the department include in its April 1 report on population a special section on the Patton phase down which (1) compares actual placements and transfers to those shown in the department's time table submitted to the Joint Legislative Budget Committee on November 20, 1980, (2) presents a contingency plan which details placement alternatives in the event of implementation problems, (3) details the source of the funds that are being used to support the 47 Patton clients transferred to hospitals other than Camarillo, and (4) estimates 1981–82 community costs based on the most recent regional center cost estimates and upon the most recent estimates concerning the availability of Title XIX funds in 1981–82.

ACR 103 Augmentation

We withhold recommendation on the $1,835,760 requested in Item 430-101-001(m) to support 98.4 additional staff for the medical/surgical and continuing medical care programs.

The budget includes $1,835,760 to add 98.4 level-of-care positions to the medical/surgical and continuing medical care programs.

The department developed staffing standards for the two programs in 1979 and requested 187.5 positions and $3,184,054 to implement the standards in the 1980–81 budget. The department now informs us that the 1980–81 augmentation was sufficient to bring staffing levels up to only 93 percent of the standard. The proposed augmentation for 1981–82 would bring staffing levels to 97 percent of the standard. The budget indicates that an additional amount will be requested in 1982–83 to bring staffing up to 100 percent of the standard.

Our analysis indicates two deficiencies in the department's augmentation request:

1. Staff calculated the number of positions needed for 1981–82 by assuming that the number of clients in the two programs will decline by 269 in the budget year. As we have noted above, this assumption may be optimistic. If the average population exceeds 2,381 in 1981–82, the number of positions needed will be greater.
2. The department's decision to phase staff in over a three year period means that program clients will not receive the level of treatment required by the department's standards until 1982–83. Staff inform us that budgeting up to 100 percent of the standards for 1981–82 would require 74.4 positions and $1.4 million in addition to the augmentation requested in the budget.

We withhold recommendation on the department's augmentation request pending justification of the estimated population reductions reflected in the budget. We recommend that the department (1) include in its April 1 report (see above) a specific analysis of the anticipated decline in the population of the continuing medical care and medical/surgical programs and (2) be prepared to discuss the decision to phase in compliance with the standards.

No Contingency Plan

The department has been renovating sufficient space in the hospitals to treat a population of 8,070 in buildings meeting federal requirements. The plan of correction filed with the federal Department of Health and Human Services requires that the renovation program be completed by July 1982. After that date, the federal government may refuse to contribute matching funds for those clients maintained in buildings which do not meet federal standards.

Because of concern that the department may not achieve its July 1982 deadline, the Legislature adopted language in the Supplemental Report to the 1980 Budget Act which required the department to report by October 1, 1980 and January 1,

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1981 on its plans for housing clients in excess of the 8,070 population level projected for July 1, 1982. The language specified that the reports include: (1) two estimates of the population on July 1, 1982. One estimate was to be based on the department's present methodology for estimating hospital populations and the other was to be based on a projection of the monthly rate of decrease experienced in fiscal year 1980–81 through 1981–82; and (2) specific locations, by building, for maintaining any excess client population after July 1, 1982.

The department has failed to submit these reports. On December 9, 1980, we wrote to the director of the departments asking about the report's status. In his December 23, response, the director indicated that he did not anticipate that the population would exceed 8,070 by the end of July 1982, and that "no action (is required) at this time". Our analysis indicates that planning for a population which exceeds 8,070 would be prudent. We recommend that the director be prepared during budget hearings to discuss the need for a contingency plan.

Psychiatric Technician Apprenticeship Program

We recommend a reduction of $935,877 budgeted in Item 430-101-001(m) for psychiatric technician apprenticeship programs.

The budget includes $1,159,126 to fund psychiatric technician apprenticeship programs in the budget year.

The department initiated the apprenticeship project in 1978-79 under a contract with the Department of Industrial Relations. 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 paid full time salaries to obtain the academic and clinical training required for licensure examination, while working part-time at the hospitals.

Evaluation Promised. The 1979-80 budget stated that the department would evaluate the project as part of the 1980-81 budget process. The evaluation was not conducted. Nevertheless, the department requested $1,309,126 in 1980-81 for the program. the Legislature appropriated funding for the program in the reduced amount of $1,159,126, and adopted language in the Supplemental Report to the 1980 Budget Act requiring the department to submit a report to the Legislature by December 15, 1980 which (1) assessed the program's impact on the department's affirmative action goals, (2) presented data on the number of apprentices who (a) began the program, (b) completed the program, (c) passed licensure exams, and (d) were hired by the department, and (3) the costs and benefit of the program compared to other affirmative action and training programs. To date, the department has not submitted the report.

No New Programs Planned. The department has budgeted $1,159,126 for the apprenticeship program in 1981-82. Department staff, however, inform us that no new apprenticeship programs will be established in the budget year. Consequently, the only funds required for 1981-82 are those needed to support existing programs. Two programs will continue beyond the current year and they will extend only through September 1981. We estimate that the cost of these programs in 1981-82 will be $223,249. Therefore, we recommend a reduction of $935,877.

Funding of Education Services

Chapter 1191, Statutes of 1980 (AB 1202), revised the administration of education services for state hospital residents under the age of 22. The measure appropriated $926,000 to the Departments of Mental Health and Developmental Services for implementation of its requirements during 1980-81. The measure

required the Departments of Mental Health, Developmental Services and Education to report program progress by December 1. Our office is required to report by March 15 on the adequacy of funding provided by the Legislature for the program.

In a preliminary report submitted in December, the departments notified the Legislature that, because of the late enactment of Chapter 1191, additional time would be required to respond to the reporting requirements. The departments stated that a final report would be submitted by January 31.

The budget, as introduced, does not provide continued funding for the program in 1981-82 because plans for expenditure of current year funds are not yet final. The budget states that funding for the budget year will be addressed in the May Revision of the budget.

We will be reporting to the Legislature on Chapter 1191 compliance after we have reviewed the departments' report and additional information on current year costs.

F. LEGISLATIVE MANDATES

The budget proposes $144,490 for legislative mandates in 1981-82, which is a decrease of $130,000, or 47.4 percent, below estimated current year expenditures. The current year expenditures reimburse local agencies, pursuant to the following statutes:

1. Chapter 498, Statutes of 1977, reimburses coroners for inquests into deaths at state hospitals:
2. Chapter 694, Statutes of 1977, reimburses court-appointed public defenders to represent developmentally disabled persons in conservatorship and guardianship hearings;
3. Chapter 1304, Statutes of 1980, reimburses court-appointed public defenders to represent developmentally disabled persons in limited conservatorship hearings:
4. Chapter 644, Statutes of 1980, reimburses counties for the costs of judicial proceeding related to dangerous mentally retarded state hospital residents; and
5. Chapter 1253, Statutes of 1980, reimburses court-appointed public defenders to represent mentally retarded persons charged with misdemeanors.

The budget proposes to eliminate funding for the Chapter 1253 reimbursements, for a General Fund savings of $130,000. We discuss this issue in conjunction with the administrations's decision to terminate funding for the Chapter 1253 program for mentally retarded offenders, page 841.