DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY

Item 430-301 from the General Fund, Special Account for Capital Outlay and the Energy and Resources Fund — Budget p. HW 100

Requested 1981–82	$32,511,252
Recommended approval	1,855,325
Recommended reduction	4,245,975
Recommended pending	26,409,952

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Fire and Life Safety Corrections and Environmental Improvements—Statewide. Withhold recommendation on $24,105,002 request, pending receipt of additional population and project cost information. 865
2. Electrical Distribution Improvements—Napa State Hospital. Withhold recommendation on $800,000 for improvements, pending receipt of additional information. 866
3. Electrical Distribution Improvements—Porterville State Hospital. Withhold recommendation on $1,125,950 for improvements, pending receipt of additional information. 867
4. Earthquake Safety Modifications—Statewide. Withhold recommendation on preliminary plans, working drawings and construction of elevator modifications statewide, pending receipt of additional information. 868
5. *Handicapped Access—Statewide. Reduce by $374,400.* Recommend construction funds for elevators be deleted because two elevators are not needed to permit access to services, and the request for construction funds for a third elevator is premature. Further, recommend budget language requiring the State Public Works Board to defer approval of constructions funds until new Administrative Code regulations have been adopted. 868
6. *Energy and Resources Fund Reduce by $3,871,575.* Recommend funds for five energy related projects be deleted because adequate information is not available on three of the projects and planning for the other two projects has been delayed. 870

ANALYSIS AND RECOMMENDATIONS

The budget includes two items totaling $32,511,252 for capital outlay for the Department of Developmental Services. Table 1 shows the amounts proposed in each item, and the proposed funding sources.

Table 1
Department of Developmental Services
Capital Outlay 1981–82
Funding by Item and Source

Item	*Source*	*Amount*
430-301-036	General Fund, Special Account for Capital Outlay	$28,639,677
430-301-188	Energy and Resources Fund	3,871,575
Total, Capital Outlay		$32,511,252

Fire and Life Safety and Environmental Improvements

We withhold recommendation on Item 430-301-036(a) and Item 43-301-036(d), pending receipt of updated population projections and project cost estimates.

The federal government has mandated that state hospitals meet federal fire, life safety and environmental standards by July 18, 1982, or become ineligible for federal financial support. To comply with this mandate, the Department of Developmental Services has developed a detailed Plan of Correction. The plan sets forth the methods and schedule for modifying patient-occupied buildings. When fully implemented, the plan will result in sufficient space for the projected 1982 population of 8,070 developmentally disabled (DD) clients.

Prior budget acts and special legislation have provided over $153 million for renovating the state hospitals. Item 430-301-036(a) proposes an additional $21,054,462 to complete DD occupied facilities needed for the projected 1982 population. Item 430-301-036(b) proposes $3,050,540 for altering facilities for the mentally disabled (MD) at Napa State Hospital and Item 444-301-036 includes $5,626,050 for the MD program at Metropolitan State Hospital. Table 2 summarizes the total funding for fire and life safety and environmental improvements at all 11 state hospitals, including DD and MD facilities.

Table 2
Departments of Developmental Services and Mental Health
Fire and Life Safety and Environmental Improvements

Hospital	*Renovated Capacity* DD	MD	*Expended/ Funded 1976–81*	*Proposed 1981–82*	*Total*
Agnews	1,136	—	$19,721,226	$250,000	$19,971,226
Camarillo	616	96	13,390,201	—	13,390,201
Fairview	1,178	—	16,846,410	2,068,855	18,915,265
Lanterman	1,214	—	6,247,192	3,891,200	10,138,392
Metropolitan	—	876	12,576,919	5,626,050	18,202,969
Napa	372	671	19,607,226	3,050,540	22,657,766
Patton	—	948	2,384,981	—	2,384,981
Porterville	1,535	—	20,837,869	6,731,487	27,569,356
Sonoma	1,407	—	27,562,401	—	27,562,401
Stockton	678	—	10,732,455	5,026,920	15,759,375
Atascadero	—	—	599,080	—	599,080
Subtotals	8,136	2,591	$150,505,960	$26,645,052	$177,151,012
Statewide	—	—	2,939,991	3,086,000	6,025,991
Totals	8,136	2,591	$153,445,951	$29,731,052	$183,177,003
Proposed 1981–82 Funding					
Item 430-301-036 (DDS)				($24,105,002)	
Item 444-301-016 (DMH)				($5,626,050)	

The state hospitals should be modified to provide appropriate living environments. Hospital modifications, however, should be made to only those facilities that will be needed for the projected population.

The department has submitted the report on projected population required by existing law, and the report indicates that a population of 8,070 is projected for 1982. However, our review of actual versus planned reductions in state hospital patients during the current and budget year indicates that the department's pro-

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

jections may understate the population which will reside in the hospitals in 1982. (Our discussion of the population projections for the Department of Developmental Services is on page 843.) Until we have reviewed the department's update of projected populations based on the recent experiences in reducing hospital populations we withhold recommendation of the proposed funds for fire and life safety and environmental improvements.

Inadequate Cost Information Available. The department's requests for individual fire and life safety and environmental improvement projects are deficient in that the budget understates by several million dollars the amount of funds needed to complete these alterations. The estimates are understated because:

1. The proposed amounts do not reflect the proper construction cost index for capital outlay projects included in the 1981–82 Budget. Rather, the estimates for these projects are based on costs as of July 1, 1980. The Department of Finance should ensure that adequate up-to-date cost estimates are available for these projects prior to budget hearings.
2. The estimates do not reflect costs related to "special functions and durability requirements" which have been identified as part of the scope of these projects. This aspect of the project would provide a higher level of durability for those buildings that house active clients. The amount needed for these modifications is not reflected in the budget requests, and additional funds will be required to assure adequate durability and serviceability of the proposed alteration.

Department of Finance Amendment Letter, May 1980. Near the conclusion of legislative hearings on the 1980 Budget Bill, the Department of Finance proposed various changes to the Governor's Budget for the Department of Developmental Services and Department of Mental Health capital outlay. These changes were included as part of the "May revise" submission that traditionally is used to adjust the budget based on updated population and revenue estimates. The changes proposed in these letters, however, were not based on any new information related to population.

The timing of the Department of Finance's letter did not provide adequate time for the Legislature to review the significant capital outlay changes proposed by the administration. We suggest that if any changes are to be made in the capital outlay budget for 1981–82, the Department of Finance amendment letters be submitted sufficiently early so that the Legislature can review them prior to budget hearings. We do not believe it is appropriate to propose capital outlay changes as part of the "May revise" except to the extent these changes are necessitated by more recent information on caseload or population.

Electrical Distribution Improvements Projects

Item 430-301-036(b) includes $1,925,950 for electrical distribution system improvements at two state hospitals. Subitem (1) and (2) propose a total of $800,000 for preliminary plans, working drawings, and construction of improvements at Napa State Hospital, and subitem (3) proposes $1,125,950 for preliminary plans, working drawings, and construction of improvements at Porterville State Hospital.

Napa State Hospital

We withhold recommendation on Item 430-301-036(b)(1) and Item 430-301-036(b)(2) pending receipt of additional information.

The budget proposes $200,000 for modifications to the electrical distribution to the T-units and $600,000 for modifications to the electrical distribution system to the M-units and RTC building at Napa State Hospital. These projects are needed in order to provide sufficient electrical capacity for buildings scheduled to be renovated under the fire and life safety and environmental improvement program. Occupancy of renovated facilities under existing conditions would result in overloading of the electrical distribution system at this hospital.

Previously Approved Project Funds. As introduced, the 1980 Budget Bill contained $180,000 for preliminary plans and working drawings for this project. The Department of Finance letter dated May 15, 1980 requested an augmentation of $727,800 to the Budget Bill in order to provide a total of $907,800 for preliminary plans, working drawings, and construction of electrical distribution improvements at Napa State Hospital.

In our analysis of the Department of Finance letter we indicated that (1) the electrical distribution improvements proposed for the T-unit—estimated to cost $327,000—were not needed in view of the fact that a recent feasibility study had defined an alternative solution which would cost approximately $113,000, and (2) a feasibility study of the electrical needs of the M-units and the RTC building had not been completed. Thus, the $580,800 requested for preliminary plans, working drawings and construction of improvements for these buildings was not based on sufficient information. The Legislature subsequently adopted our recommendation to provide $113,000 for the needed work in the T-unit and provide $25,000 to prepare a feasibility study, preliminary plans and working drawings for improvements to the M-units and RTC building.

Since the funds were appropriated for these electrical distribution projects, the Office of State Architect (OSA) has completed a new study which addresses the requirements of the T-units, the M-units and the RTC building. The study concludes that the funds appropriated for the T-unit ($113,000) were based on an alternative which is no longer feasible because of newly developed electrical load information. The new cost estimate for this work is $491,100. The study further indicates that electrical improvements related to the M-units and RTC buildings (originally estimated to cost $580,800) are not needed, and an alternative solution costing $45,500 would provide adequate service. Based on the most recent information developed by the OSA, the total project can now be completed at a cost of $536,600 (compared with the $907,800 requested in 1980–81). The department has utilized $42,400 of the funds previously appropriated for planning for these projects, which reduces the 1981–82 funding requirements to $493,900.

Preliminary Engineering Not Complete. Based on the conclusions contained in the recent OSA feasibility study, the Public Works Board allocated preliminary planning funds for the reduced project at its January 1981 meeting. These funds will provide additional cost information in support of construction requests in the 1981–82 fiscal year. The feasibility study indicates that the current estimated cost does not include any improvements to the utility company's facilities which must be funded by the state. Consequently, we withhold recommendation of the request for construction funds for these projects until preliminary plans have been completed and the additional utility company costs have been identified. In any event, the amount of funds proposed in the budget can be significantly reduced.

Electrical Improvements—Porterville State Hospital

We withhold recommendation on Item 430-301-036(b) (3), pending receipt of additional information.

The budget includes $1,125,950 for preliminary plans, working drawings and construction of improvements to the primary electrical distribution system at Porterville State Hospital. The Budget Act of 1980 provided $81,250 for preparation of preliminary plans and working drawings for this same project. We assume that the amount proposed in the Budget Bill will be utilized for the construction portion of the project, and not for preliminary plans and working drawings that were previously funded. The proposed renovation of this system is needed because

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

existing electrical cables are subjected to excessive temperatures due to their placement adjacent to steam tunnels on the hospital grounds.

At the time preliminary plans and working drawing funds were proposed for this project, we indicated that a portion of the proposed improvements related to improvements to the electrical system capabilities that would provide added flexibility and future capacity at this hospital. In view of the fact that the Department of Developmental Services is not projecting any increase in the number of clients served at this hospital, we questioned the need for future capacity. Subsequently, the Legislature adopted language in the Supplemental Report to the 1980 Budget Act which directed the department to evaluate less expensive alternatives for modifying the electrical distribution system at Porterville so as to eliminate these unneeded features.

Preliminary planning funds for the proposed project were allocated by the State Public Works Board at its July 1980 meeting. As of January 1981, the required preliminary plans had not been completed and no additional information is available to substantiate (1) the amount requested for construction, or (2) that the department has complied with the supplemental report language.

This project is needed to provide reliable service to buildings which are being altered for fire and life safety and environmental improvements. Consequently, it is urgent that the Office of State Architect ensure that preliminary plans are completed prior to legislative hearings on the budget so that adequate project scope and cost information is available. We withhold recommendation on this item, pending receipt of the necessary information.

Elevator Earthquake Safety Modifications—Statewide

We withhold recommendation on Item 430-301-036(c) (1), $379,000 for earthquake safety modifications to elevators.

The budget proposes $379,000 to modify elevators at the state hospitals operated by the Department of Developmental Services. The proposed modifications relate to new elevator safety orders contained in the California Administrative Code.

The department has surveyed a portion of the state hospitals to identify the extent of work needed to upgrade elevators to meet new safety code requirements. Surveys have been completed at Agnews, Napa, Porterville and Stockton State Hospitals. The Office of State Architect is currently evaluating the elevators at the remaining five state hospitals to identify the modifications needed for earthquake safety. The department indicates that these surveys will be completed prior to budget hearings and that they will identify the scope of work and estimated project costs. Consequently, we withhold recommendation on the proposed construction funds, pending receipt of the needed information for the remaining hospitals.

Handicapped Modifications—Statewide

We recommend Item 430-301-036(c) (2), alterations for handicapped access, be reduced by $374,400. We further recommend adoption of Budget Bill language requiring the State Public Works Board to defer approval of construction funds appropriated in this item until Administrative Code regulations for handicapped access in public buildings have been adopted.

The Department of Developmental Services' Facilities Planning section has completed surveys of all public areas at the nine state hospitals operated by the department. The department proposes to implement phase II of its plan—modifying all public areas at state hospitals to provide access to the physically handicapped. Phase I, modification of patient-occupied buildings, has been integrated with fire and life safety and environmental improvements currently under construction at the state hospitals. Phase III will modify buildings used exclusively by employees and phase IV, if necessary, will modify buildings which are currently inactive but may be activated for some use in the future.

Administrative Regulations not Adopted. By their very nature, the state hospitals for the developmentally disabled are heavily used by mobility-impaired individuals. Consequently, the proposed project to modify public access areas at the hospital is high in priority. However, the surveys conducted by the Department of Developmental Services are based on the cost of modifying buildings to comply with *proposed* Administrative Code requirements. The State Architect has not implemented these regulations because of the Legislature's directive requiring OSA to submit the proposed regulations to the Legislature for review. OSA has only recently submitted the proposed regulations to the Legislature. It is our understanding that the regulations will be the subject of upcoming legislative hearings.

In order to ensure that handicapped access in these facilities is provided in compliance with the code requirements, we recommend the adoption of Budget Bill language requiring the State Public Works Board to defer allocation of construction funds for these projects until final regulations have been adopted.

Need and Costs for Elevators not Justified. The budget proposes installation of elevators in two buildings at Camarillo State Hospital and one building at Napa. According to the surveys for these hospitals prepared by the department, one elevator at Camarillo and the elevator at Napa are not needed. The survey notes that the services provided on the second floor of these buildings are also available on the ground floor. Consequently, the lack of an elevator does not inhibit the delivery of services provided in these buildings. We, therefore, recommend that funds ($250,000) for these elevators be deleted from the budget. The one remaining elevator needs to be installed at Camarillo State Hospital to provide access to services. However, adequate cost information is not available to justify the requested construction funds of $125,000. We recommend that funds for preliminary plans and working drawings in the amount of $12,500 be approved to develop cost information adequate to substantiate a request for construction funds in 1982–83.

Table 3
Department of Developmental Services
Handicapped Accessibility Survey

Hospital/Project	*Estimated Cost of Modifications*	*Analyst's Proposal*[a]
Agnews	$39,500	$43,500
Camarillo	202,235	222,500
Camarillo elevators	250,000	12,500
Fairview	82,575	90,800
Lanterman	150,550	165,600
Napa	70,300	77,300
Napa elevator	122,750	0
Patton	74,805	82,300
Porterville	67,325	74,100
Sonoma	179,950	198,000
Stockton	131,940	145,100
Subtotals	$1,371,930	$1,111,700
Administrative costs	114,170	(included above)
Subtotals—1981–82 amount	$1,486,100	$1,111,700
Future cost (phase II elevator)	0	125,000
Totals	$1,486,100	$1,236,700

[a] Includes administrative cost.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

In addition, to provide adequate information in the budget as to the specific amount of funds proposed for each hospital (including administrative costs), we suggest that the Budget Bill reflect a schedule of the amounts proposed for each hospital. Table 3 shows the proposed budget for handicapped accessibility modifications at each hospital and our recommendations which would become the basis for a schedule in the Budget Bill totaling $1,111,700, a reduction of $374,400.

Minor Capital Outlay

We recommend approval of Item 430-301-036(c)(3), minor capital outlay.

The budget includes $743,625 for 20 minor capital outlay projects (projects costing $100,000 or less) for the Department of Developmental Services. For discussion purposes, we have grouped these projects into four categories, as shown in Table 4.

Table 4
Department of Developmental Services
1981–82 Minor Capital Outlay

Project Type	*Number of Projects*	*Budget Bill Amount*	*Analyst's Proposal*
Health and Safety deficiency	5	$233,500	$233,500
Security improvement	7	255,025	255,025
Program support improvement	6	180,450	180,450
Energy conservation	2	74,650	74,650
Totals	20	$743,625	$743,625

Health and Safety Deficiencies. The budget includes five projects to make necessary modifications to the state hospitals to meet Health and Safety Code requirements. Projects would also meet deficiencies noted in surveys by licensing agencies. These projects include modification to kitchen facilities, isolating domestic water systems and providing appropriate fire exiting.

Security Improvements. The budget includes $255,025 to make security improvements at Napa State Hospital and Patton State Hospital. These hospitals currently operate units for judicially committed mentally disabled individuals. The proposed modifications include additional fencing, construction of a permanent road and installation of surveillance cameras at Patton State Hospital. The support budget includes funds for additional staffing relating to these improvements.

Program Support Improvements. The budget includes $180,450 for six projects related to program or support activity improvements. These projects include installation of bathing facilities and improvements to electrical distribution systems. One project proposes $50,000 at Camarillo State Hospital to provide site development for installation of new modular facilities. This request is related to the proposed budget change in the support budget to implement a new treatment program at Camarillo State Hospital for the adolescent population.

Energy Conservation Proposals. The budget includes two projects for $74,650 to install energy conservation improvements at Fairview State Hospital. The proposed projects would improve boiler operation and chiller efficiency, and have a payback period of less than five years.

Energy and Resources Fund Projects

We recommend Item 430-301-188 be deleted, for a savings of $3,871,575 in the Energy and Resources Fund.

The budget proposes $3,871,575 from the Energy and Resources Fund for six projects at the state hospitals. Five projects relate to installation of cogeneration facilities, and one project proposes modifications to improve the comfort level of the R & T building at Napa State Hospital. Cogeneration facilities would generate electricity, using natural gas turbines, with the waste heat used to provide steam for hospital operations. Table 5 summarizes the requests proposed from the Energy and Resources Fund.

Table 5
Department of Developmental Services—Capital Outlay
Energy and Resources Fund
1981–82

	Project (Item 430-301-188)	*Location*	*Phase*[a]	*Budget Bill Amount*	*Analyst's Proposal*	*Estimated Future Cost*
(a)	Cogeneration system	Agnews	pw	$317,400	—	$3,623,000
(b)	Cogeneration system	Camarillo	p	44,960	—	unknown
(c)	Cogeneration system	Lanterman	pw	317,400	—	3,623,000
(d) (1)	Cogeneration system (phase II)	Napa	pwc	1,063,075	—	—
(d) (2)	Comfort conditioning R & T building	Napa	pwc	2,108,740	—	—
(e)	Cogeneration system	Stockton	f	20,000	—	unknown
	Total			$3,871,575	—	unknown

[a] Phase symbols indicate: f—feasibility study; c—construction; p—preliminary planning, and w—working drawings.

The funds proposed for installation of cogeneration facilities at Agnews, Camarillo, Lanterman and Stockton State Hospitals would provide for feasibility studies, preliminary plans and/or working drawings for these proposed projects. A cogeneration system generates electricity and also heat which is used to meet other energy needs. We have not received adequate information to evaluate the merits of these projects or the energy savings which may be generated.

The project funds proposed at Napa State Hospital for the second phase of cogeneration ($1,063,075) and funds for conservation and comfort conditioning at the R & T building ($2,108,740) are also based on inadequate information. Funds for preliminary plans and working drawings for these projects were appropriated in the Budget Act of 1980. The proposed planning has not proceeded at an adequate pace, and no additional information is available to justify the construction funds request.

Given (1) the status of these two projects, and (2) the fact that adequate information is not available on the three other cogeneration proposals, we recommend deletion of the entire item.

Cogeneration Policy Statement. A portion of the projects proposed under this item has been developed by the Department of General Services (DGS) energy assessment program. In discussing these projects with DGS staff, they indicated that the proposed cogeneration facilities would be constructed to provide electrical power directly to utility companies servicing these institutions. This is a departure from the justification for the cogeneration project approved for Napa State Hospital. At Napa the cogeneration facilities provide electricity for the hospital and the utility company's power system provides a "back-up" power source.

Approval of any funds for the additional cogeneration facilities would establish a policy whereby the state would undertake generation of power *for the sole purpose of selling the generator power to utility companies.* The Pubic Utility Commission rulings on the rate at which public utilities will pay for power generated through cogeneration users gives an advantage to those who sell power

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

directly to the utility company over those who generate power for use on site. Because of the established rate structure, construction of these facilities may result in additional costs to utility producers which eventually are paid for through increased costs to all of the utility's customers. Moreover, it puts the state in the business of supplying utility service in the private market. We believe this is a major policy consideration which should be addressed in separate legislation. Pending such legislation, we recomend the adoption of Budget Bill language restricting the design and use of cogeneration power at state facilities to on-site use, unless an amount excess to the on-site needs is produced. Any excess could be sold to the utility company.

DEPARTMENT OF DEVELOPMENTAL SERVICES—REAPPROPRIATIONS

Item 430–490 from the General Fund — Budget p. HW 89

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Budget Act of 1980 appropriated $2.5 million to implement community living continuums pursuant to Chapter 1232, Statutes of 1978 (AB 3274), including $1.0 million reappropriated from the Budget Act of 1979. The Department of Developmental Services plans to encumber $1,952,000 in the current year for contracts with six designated continuum agencies (DCAs). This item proposes to reappropriate the unencumbered balance of $548,000 for contracts currently being negotiated with two additional DCAs in 1981–82.

Health and Welfare Agency
DEPARTMENT OF MENTAL HEALTH

Item 444 from the General Fund — Budget p. HW 108

Requested 1981–82	$572,897,938
Estimated 1980–81	568,586,487
Actual 1979–80	482,169,485
Requested increase (excluding amount for salary increases) $5,747,940 (+0.8 percent)	
Total recommended reduction	$5,769,930
Total recommendations pending	40,979,487

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
444-001-001—Support		General	$12,464,088
444-011-001—State Operations—Penal Commitments		General	62,891,714
444-101-001—Local Assistance		General	497,542,136
Total			$572,897,938

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Reporting Requirements. Recommend that the Legislature direct the Departments of Finance and Mental Health to explain why required reports have not been submitted to the Legislature on a timely basis. 876
2. Health Training Centers. Recommend that the Departments of Mental Health and Finance explain to the fiscal committees (1) why the report on the training centers has not been submitted and (2) how the centers will be able to function at a 100 percent reimbursement level in 1981–82. 878
3. ***Contracts. Reduce Item 444-001-001 by $923,389.*** Recommend deletion of funds budgeted for contracts because information on how funds would be used has not been provided to the Legislature. 879
4. ***Executive Inquiry Network. Reduce Item 444-001-001 by $120,600.*** Recommend deletion of funds budgeted to support the Executive Inquiry Network because department has not complied with requirements of existing law regarding EDP projects. 879
5. CALSTARS. Recommend one position requested to implement the California State Accounting and Reporting System be approved on a limited term basis. 882
6. Service Area Teams. Recommend that the department report to the fiscal committees by April 1 on the functions of staffing requirements for the Service Area Teams. 883
7. ACR 103 Report. Recommend that the Legislature direct the department to describe the status of its final ACR 103 report during budget hearings. 885
8. Non-Level-of-Care Positions. Withhold recommendation on the $27,690,407 budgeted in Item 444-101-001 (a) to support non-level-of-care positions in the state hospitals, pending submission of ACR 103 report. 885
9. Operating Expenses. Withhold recommendation on the $11,146,778 budgeted in Item 444-101-001 (a) for operating expenses in the hospitals, pending submission of required report. 885
10. Hospital Population. Recommend that (1) Directors of the Departments of Mental Health and Developmental Services appear jointly before the fiscal committees to justify the proposed reimbursement level for mentally disabled clients in hospitals operated by the Department of Developmental Services, (2) Budget Bill language be adopted requiring the departments to report jointly on population levels and (3) Department of Mental Health report by April 1, 1981 on the increasing number of judicial commitments to the hospitals. 885
11. Management Problems. Recommend adoption of supplemental report language requiring the Health and Welfare Agency to report on management problems created by joint administration of the state hospitals. 885
12. Overhead Expenses. Withhold recommendation on $1,324,802 requested in Item 444-011-001 to cover overhead expenses at Patton State Hospital, pending receipt of information justifying the request. 888

DEPARTMENT OF MENTAL HEALTH—Continued

13. *Salary Savings. Reduce Item 444-101-001(a) by $437,189.* Recommend increase in the amount budgeted for salary savings at the state hospitals operated by the Department of Mental Health to reflect salary savings rate budgeted for other state hospitals. 889
14. Stockton State Hospital. Recommend that the department report to the fiscal committees by April 1 on savings resulting from the closure of the program for the mentally disabled at Stockton State Hospital. 890
15. *Re-Education Program. Reduce Item 444-101-001(a) by $49,331.* Recommend reduction to reflect savings resulting from implementation of the Re-Education program at Camarillo State Hospital. 890
16. *Hospital Automation. Reduce Item 444-001-001 by $654,072.* Recommend (1) deletion of eight positions and equipment budgeted to automate certain functions at Metropolitan State Hospital, for a General Fund savings of $654,072, because the department and the Department of Developmental Services have not coordinated their automation plans, (2) department respond to consultant's recommendation on hospital automation, and (3) department report jointly with the Department of Developmental Services on hospital automation. 890
17. *Short-Doyle/Medi-Cal. Reduce Item 444-001-001 by $70,589 from the General Fund* and $47, 059 from reimbursements. Recommend (1) four positions requested for policy development be approved on a limited term basis, (2) approval of five audit-related positions, and (3) deletion of three positions requested to provide technical assistance to counties because need for additional staff has not been justified, for savings of $117,648 ($70,589 from the General Fund, $47,059 from reimbursements). 896
18. 1980–81 Savings. Recommend that the department report to the fiscal committees by April 1 on estimated local program expenditures for projects funded with augmentations provided in 1980 Budget Act. 897
19. *1981–82 Augmentation. Reduce Item 444-101-001(b) by $1,800,000.* Recommend reduction of funds budgeted to expand local programs because the department is unable to say how the funds would be spent, for a savings of $1,800,000 to the General Fund. 899
20. *Special Treatment Program. Reduce Item 444-101-001(b) by $1,714,760.* Recommend reduction of funds double budgeted for Special Treatment program. 899
21. Prevention Contracts. Withhold recommendation of $817,500 proposed in Item 444-101-001(b) to fund prevention contracts, pending receipt of required report. 900

General Program Statement

Chapter 1252, Statutes of 1977, created the Department of Mental Health, effective July 1, 1978. The department directs and coordinates state efforts for the prevention and treatment of mental disabilities. The department's primary responsibilities are to:

1. Administer the Short-Doyle Act which provides for delivery of mental health services through a state-county partnership;

2. Operate two state hospitals which exclusively serve the mentally disabled (Atascadero and Metropolitan), and manage programs for the mentally disabled located in four state hospitals (Camarillo, Napa, Stockton, and Patton) which serve both the mentally and developmentally disabled; and

3. Manage the Lanterman-Petris-Short Act which provides for involuntary treatment of the mentally disabled.

Analysis and Recommendations

The budget proposes total expenditures of $668,831,201 for support of the Department of Mental Health's activities in 1981–82. This is an increase of $10,125,734, or 1.5 percent, above estimated current year expenditures. The budget proposes an appropriation of $577,497,938 from the General Fund, which is an increase of $8,911,451, or 1.6 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 shows actual, estimated, and proposed expenditures for the department's activities.

Table 1
Mental Health Program
All Expenditures
1979–80 through 1981–82

				Change 1981–82 over 1980–81	
	1979–80	*1980–81*	*1981–82*	*Amount*	*Percent*
Department Support					
General Fund [a]	$12,069,640	$13,724,940	$12,464,088	−$1,260,852	−9.2
Reimbursements	16,151,299	18,256,354	20,100,644	1,844,290	10.1
Federal funds	546,614	793,676	409,624	−384,052	−48.4
Subtotals	28,767,553	32,774,970	32,974,356	199,386	.6
State Hospitals					
Judicial Commitments					
General Fund [a]	52,763,795	60,325,789	62,891,714	2,565,925	4.3
Reimbursements	834,279	3,896,033	3,650,078	−245,955	−6.3
Subtotals	53,598,074	64,221,822	66,541,792	2,319,970	3.6
Local Assistance [b]					
General Fund [a]	417,336,050	494,535,758	502,142,136 [c]	7,606,378	1.5
Reimbursement	64,878,778	67,172,917	67,172,917	—	—
Subtotals	482,214,828	561,708,675	569,315,053 [c]	7,606,378	1.4
All Programs					
General Fund [a]	482,169,485	568,586,487	577,497,938 [c]	8,911,451	1.6
Reimbursements	81,864,356	89,325,304	90,923,639	1,598,335	1.8
Federal funds	546,614	793,676	409,624	−384,052	−48.4
Totals	$564,580,455	$658,705,467	$668,831,201 [c]	$10,125,734	1.5

[a] After special adjustment reductions.
[b] Includes local assistance for state hospitals.
[c] Includes $4,600,000 proposed for reappropriation in Item 444-490.

The budget proposes a General Fund reduction of $3,481,881 to reflect "special adjustments." Table 2 shows the amount reduced, by category.

Department Reorganization

In our analysis of the department's 1979–80 and 1980–81 budget proposals, we indicated that it was difficult to identify how the department utilized its staff and accomplished its program responsibilities because the department had provided conflicting information to the Legislature on its organization structure.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 2
Special General Fund Adjustments
by Expenditure Category
1981–82

Category	*Amount Before Adjustment*	*Special Adjustment*	*Net General Fund*	*Percent Change*
Support	$13,853,158	−$1,389,070	$12,464,088	−10.0%
State Hospitals Judicial Commitments	63,513,684	−621,970	62,891,714	−1.0
Local Assistance [a]	503,612,977	−1,470,841	502,142,136	−.3
Totals	$580,979,819	−$3,481,881	$577,497,938	−.6%

[a] Includes local assistance for state hospitals and $4,600,000 proposed for reappropriation in Item 444-490

The department has undergone yet another reorganization in the current year. The department is now organized with the following divisions: (a) Planning, Evaluation and Promotion, (b) Hospital Programs, (c) Community Programs, (d) Human Resources and External Relations, and (e) Financial and Information Management. Presently, no information is available which details how staff are allocated to the different divisions.

Without access to accurate written information on the detail of the department organization, we have had to obtain staffing information on a case-by-case basis. The continued fluctuation in the department's organizational structure continues to make it difficult for the Legislature to analyze staffing needs and utilization of resources.

Table 3
Department of Mental Health
1980–81 Legislative Reporting Requirements
(to January 15, 1981)

Budget Act Reporting Requirement	*Due Date*	*Date Received*	*Status*
1. Health Training Centers	12/1/80	—	Overdue
2. Use of Reappropriation Authorized in Control Section 10.22	12/15/80	—	Overdue
3. Population Levels	10/1/80 &	—	Overdue
	1/1/81	—	Overdue
4. Three Year Plan	10/1/80	—	Overdue
Supplemental Language Reporting Requirements			
1. Joint Hospital Automation	12/1/80	—	Overdue
		(Draft received 1/14/80)	
2. Evaluation of Hospital Automation System	12/1/80	Draft received 9/15/80	
		Final received 1/21/81	Submitted
3. Data Processing Activities	9/1/80 &	10/2/80	Submitted
	12/1/80	—	Overdue
4. Prevention Expenditures	1/10/81	—	Overdue
5. Cost Categories Affected by Population Decline	11/1/80	—	Overdue

Poor Response to Legislative Reporting Requirements

We recommend that the Legislature direct the Departments of Mental Health and Finance to explain why nine reports called for by the 1980 Budget Act and the Supplemental Report to the 1980 Budget Act were not submitted to the Legislature by the due dates (these reports were still overdue as of February 6, 1981.)

The Legislature, through the 1980 Budget Act and the Supplemental Report to that Act, directed the Department of Mental Health to submit eleven reports to the fiscal committees prior to January 15, 1981. The department has submitted two of the eleven reports requested. Table 3 displays the reporting requirements, the due dates and the status of the reports.

Without timely transmittal of these reports, the Legislature cannot make informed decisions about the department's budget proposals. We recommend that the Departments of Mental Health and Finance present testimony during budget hearings describing the corrective action they are taking to assure timely transmittal of Budget Act and supplemental reports to the fiscal committees.

1. DEPARTMENT SUPPORT: ITEMS 444-001-001 and 444-001-890

The budget proposes total expenditures of $32,974,356 for support of the Department of Mental Health in 1981–82. This is a decrease of $199,386, or 0.6 percent, below estimated current year expenditures. The budget proposes an appropriation of $12,464,088 from the General Fund, which is a decrease of $1,260,852, or 9.2 percent below, estimated current year expenditures. Table 4 shows actual, estimated and proposed expenditures for departmental support.

Table 4
Department of Mental Health
Program Expenditures and Funding Sources
Department Support, 1979–80 to 1981–82

	Actual 1979–80	Estimated 1980–81	Proposed 1981–82	Change 1981–82 Over 1980–81 Amount	Percent
General Fund	$12,069,640	$13,724,940	$13,853,158	$128,218	1.9%
Special adjustments	—	—	−1,389,070	−1,389,070	—
Net General Fund	12,069,640	13,724,940	12,464,088	−1,260,852	−9.2
Reimbursements	16,151,299	18,256,354	20,100,644	1,844,290	10.1
Federal funds	546,614	793,676	409,624	−384,052	−48.4
Total Expenditures	$28,767,553	$32,774,970	$32,974,356	$199,386	0.6%

Table 5 details the department's proposed General Fund adjustments to estimated current year expenditures.

Table 5
Department of Mental Health-Support
Proposed General Fund Adjustments
1981–82

	Adjustment	Total
1980–81 Budget Base		$13,724,940
Baseline Adjustments:		
Benefits	$39,723	
Merit Salary Adjustment	129,998	
Price Increase—Operating Expense	297,164	
Utilization Review Contract Transfer	−500,000	

DEPARTMENT OF MENTAL HEALTH—Continued

Limited Term Positions	−348,495	
Rate Development	119,409	
Office of Administrative Law Adjustment	5,975	
Special Adjustment:	−1,389,070	
1) Health Training Centers	(−970,875)	
2) Support Operating Expense	(−418,195)	
Programs Funded in Prior Legislation		
1) Chapter 1058/79—Brain Damage	−11,182	
2) Chapter 1172/79—Management Information System	−295,090	
3) Chapter 1194/79—Rates Development	−182,290	
4) Chapter 1297/80—Allocation to State Board of Control	966	
Budget Change Proposals		
1) Accounting	63,290	
2) Short-Doyle/Medi-Cal	154,807	
3) Doe Vs. Gallinot	81,580	
4) Short-Doyle/Medi-Cal Audits	98,341	
5) Patients' Rights	33,860	
6) CALSTARS	36,090	
7) Health Training Centers	−250,000	
8. Hospital Automation	654,072	
Total Adjustments		−$1,260,852
1981–82 Proposed Budget		$12,464,088

Special Adjustments—Support

The department's support budget reflects a reduction of $1,389,070 for "special adjustments." Table 6 details these adjustments.

Table 6
Special Adjustments
Department Support
1981–82

Category	*General Fund*	*Reimbursements*	*Expenditure Change*
Health Training Centers	−$970,875	$970,875	—
Operating Expenses	−418,195	—	−$418,195
Totals	−$1,389,070	$970,375	−$418,195

Health Training Centers

We recommend that the Legislature direct the Departments of Finance and Mental Health to explain during budget hearings (1) why the report on the health training center was not submitted on a timely basis, and (2) how the centers will be able to function on a 100 percent reimbursement level in 1981–82.

Background. The department maintains two health training centers—one in Los Angeles and one in Berkeley—which have been entirely supported from the General Fund. The centers, which have a total of 28 staff, provide training to human services professionals employed by federal, state, and local governmental entities as well as by private entities.

The centers were established in the early 1960s to train community mental health professionals representing all sectors of public and private employment. When the centers were placed within the former Department of Health in 1973, their role was expanded to provide training for all human service professionals. In 1978, following the Health and Welfare Agency reorganization, the centers were assigned to the Department of Mental Health. They continue to provide training services in all of the human services areas for public and private employers.

Legislative Direction. During hearings on the department's 1980–81 budget, the Legislature adopted Budget Act language which required the department to submit a report on the health training centers by December 1, 1980 which (1) described the types of training provided, clients served and the benefits resulting from training, (2) established a plan for operating the centers on a reimbursement basis in 1981–82 and (3) proposed a fee schedule for services. As of February 6, 1981, the department has not submitted the required plan.

Budget Proposal. The budget proposes $1,220,875 for Health Training Centers in 1981–82. Originally, the department's budget proposed that the centers obtain 20 percent ($250,000) of their 1981–82 funding requirements from reimbursements. As part of the "special adjustment" reductions to the budget, the Department of Finance revised the proposal to require that the centers obtain 100 percent of their 1981–82 funds from reimbursements. The 1981 Budget Bill, however, contains language which authorizes the Department of Mental Health to allocate up to $500,000 in local mental health program funds to the centers.

In adopting language requiring the department to develop a plan for operating the centers on a reimbursement basis, the Legislature did not require the centers to be entirely self-supporting. The Legislature, in fact, purposefully deferred a decision on the appropriate level of reimbursements until a rational plan is developed which provides for reimbursements on a sound basis. It is our understanding that submission of the report to the Legislature was delayed so that the administration could revise the report so as to justify the decision requiring reimbursement at a 100 percent level.

Without the data requested by the Legislature in the 1980 Budget Act, we have no basis on which to recommend an appropriate reimbursement level for the centers. Instead, we recommend that the Legislature direct the Departments of Finance and Mental Health to (1) explain why the requested report was not submitted on a timely basis, and (2) discuss the feasibility of operating the centers totally through reimbursements.

Contract Expenditures

We recommend deletion of the amount budgeted for contracts because information on how these funds will be used has not been provided to the Legislature, for a reduction of $923,389 in Item 444-001-001.

The department's budget requests $923,389 for contracts and consultant services, which is $732,263, or 44 percent, below estimated current year expenditures of $1,655,652.

On December 18, 1980, we requested that the department explain how the contract funds would be expended in the budget year. Specifically, we asked that the department detail the proposed amount and length of each contract. The department has not responded to our request for information. In the absence of information detailing contract expenditures, we cannot recommend approval of the amount requested for this purpose in 1981–82. Consequently, we must recommend deletion of the $923,389 budgeted in Item 444-001-001 for contracts.

Executive Inquiry Network

We recommend deletion of funds budgeted to support the Executive Inquiry Network because the system is not being fully utilized and the department has failed to comply with state EDP policy, as set forth in existing law, for a General Fund savings of $120,600 in Item 444-001-001.

In 1979–80, the department procured a software package called the Executive Inquiry Network (EIN) and installed the package at the Health and Welfare Agency Data Center. Since then, the department has leased 14 terminals to access

DEPARTMENT OF MENTAL HEALTH—Continued

the package. These terminals have been installed at various department locations. The purpose of the project, according to the department's data processing report, is to provide department executives with immediate access to important management information. The department has budgeted $120,600 to lease the terminals in the budget year.

Terminal should come out of the closet. The department did not conduct a needs assessment prior to procuring the system. Instead, the department relied on individual managers to develop their own applications for the system after it became available. Most of the managers who have access to the EIN, however, do not use it frequently. The department recently surveyed managers at the 14 EIN sites to determine how much the managers intended to use the system. The managers indicated that they would use the terminals installed for EIN for other purposes (word processing and file manipulation) over 75 percent of the time. Managers in three of the locations state that they would not use the terminals at all. In fact, when we inquired about the application of the system at one hospital, we observed that the terminal had been disconnected and was being stored in a closet. Further, we have discovered that although a manager at one hospital evidently does not intend to use the terminal, he will not allow the terminal to be either removed or installed.

The department failed to comply with state EDP policy. Control Section 4 of the Budget Act and Section 4920 of the State Administrative Manual prohibits the implementation of a data processing project unless the department has planned for its use. These sections require that, for any data processing project which exceeds $50,000 in cost, a department must conduct a feasibility study which demonstrates the need for the project and analyzes its costs and benefits. Control Section 4 further requires that for any project exceeding $75,000 in cost, a department must use a competititve procurement process to select a contractor. The department did not comply with either of these Budget Act requirements in procuring the equipment and software for the EIN.

Recommendation. We recommend that the $120,600 budgeted for the EIN be deleted. If the department believes that it has an urgent need for the system, we recommend that it demonstrate its need through a feasibility study, as all state agencies are required to do.

"Opt-Out"

Background. Thirty-four local mental health programs contract with the Department's Office of Mental Health Social Services (OMHSS) to provide protective social services to their clients. The remaining 24 local programs have chosen to discontinue use of the state's social services and provide social services to clients with county employees. The process of discontinuing use of state provided social services is referred to as "opt-out."

In the past, the department has not maintained a consistent policy on opt-out. The department first permitted opt-out in November of 1971. Between that time and July 1973, fourteen counties opted-out. A year later, the department ceased authorizing opt-outs, claiming that the opt-out counties were not providing the same level of service as OMHSS staff. The department commissioned studies to evaluate the issue, but the studies did not conclusively demonstrate a change in service levels.

The moratorium on opt-out was lifted again in January of 1976, for a period of two and one-half years. During that time, 10 additional counties opted-out. In July, 1978 the department again reinstated the moratorium.

Legislative Action. During hearings on the department's proposed 1980–81 budget, the Legislature added language to the 1980 Budget Act which required that (1) the department lift the moratorium on opt-out, (2) the department use the guidelines it had employed for prior opt-outs as the basis for negotiations with counties (among other provisions, these guidelines provide for transfer of state OMHSS employees to the counties electing to opt-out), (3) counties seeking to change the level of service purchased from OMHSS provide the department with six months' advance notice and, (4) the administration exempt OMHSS staff from the state hiring freeze.

Progress of Opt-Out. Since adoption of this language, eleven counties have expressed an intent to opt-out. Once the department receives a letter of intent, it informs the county of the positions and funds which would be transferred to it if the county proceeds with opt-out. Counties are then required to submit an opt-out plan which is reviewed by the department. If the plan is approved, the department transfers the positions and funds as agreed.

Six of the eleven counties have been informed of the resources which would be transferred to them in the event of opt-out. The remaining five were to be informed of their budgets by March 1981. The Department indicates it will transfer resources to those counties which complete the opt-out process at the beginning of 1981–82.

Table 7 shows which counties are considering opt out, the date they expressed their intent and the funds and positions which the department has planned to transfer to them.

Table 7
Counties Considering Opt-Out in 1980–81

County	*Date of Letter of Intent*	*Budget*	
		Positions	*Amount*
Alameda	10-14-80	19.5	$705,605
Glen	12-29-80	1 (est.) [b]	– [b]
Lake	12-15-80	1 [a] (est.)	– [a]
Los Angeles	12-24-80	175 (est.) [b]	– [b]
Mendocino	8-6-80	7	249,688
Napa	8-8-80	8.5	303,915
San Joaquin	6-4-80	12.7	454,697
Shasta	1-19-81	6 (est.) [b]	– [b]
Solano	8-22-80	9.5	375,573
Sonoma	12-29-80	18 (est.) [c]	– [c]
Ventura	8-4-80	9	410,374

[a] Data available 2-13-81.
[b] Data available 3-1-81.
[c] Data available 2-16-81.

Impact of Budget Act Language. In addition to adopting the Budget Act language previously discussed, the Legislature adopted language in the Supplemental Report to the 1980 Budget Act which requires the Legislative Analyst to report by March 1, 1981, on the status of opt-out and the impact of the Budget Act language on the opt-out process.

The response of the counties to the termination of the opt-out moratorium demonstrates that the language has been effective. While the language requiring the department to use the guidelines from prior opt-outs may discourage some counties from opting out, these guidelines provide guarantees for staff and maintenance of service requirements which seem equitable and appropriate.

The language which authorizes counties to change the amount of service purchased from OMHSS, with six months' notice to the department, has created some

DEPARTMENT OF MENTAL HEALTH—Continued

confusion. Certain opt-out counties believe that the language entitles them to transfer OMHSS staff prior to completion of the opt-out process.

1981 Budget Bill. The Budget Bill, as introduced, does not include any language on opt-out. We understand, however, that the department does not intend to reimpose the opt-out moratorium. We recommend that, during budget hearings, the department inform the fiscal committees of its opt-out policy for the budget year.

CALSTARS Position

We recomend that the position requested to develop a cost allocation methodology for implementation of the CALSTARS project be approved on a limited term basis because development of the methodology is a short-term task.

The budget requests one position and $36,090 to support implementation of the California State Accounting and Reporting System (CALSTARS).

The Department of Finance is developing a statewide fiscal information system, called the California Fiscal Information System (CFIS), to provide uniform fiscal data on state expenditures. One component of the fiscal system is installation of a governmental program cost accounting system. In July 1980, the department contracted with a consultant to develop the cost accounting system which is called CALSTARS. The department intends to install CALSTARS in 17 pilot agencies and institutions during 1981–82. One of the agencies is the Department of Mental Health. The CALSTARS implementation schedule requires that the accounts for both department headquarters and Atascadero State Hospital be transferred over to the CALSTARS system in the budget year. The transfer of Metropolitan State Hospital accounts in 1982–83 will complete the installation of CALSTARS within the department.

Because the department's existing accounting system is not structured to provide the cost allocation data which is the basis of a cost accounting system, installation of CALSTARS will be a complex and time consuming task. The position which the department is requesting will be used to (1) develop and monitor a cost allocation plan and (2) coordinate with the Department of Finance on CALSTARS requirements. We believe the position is needed and recommend that it be approved.

Department staff indicate that development of the cost allocation system will require approximately two years. Because development of the system is a time limited task, we recommend that the position be approved on a limited term basis through June 30, 1983.

Management Information System

Chapter 1172, Statutes of 1979, appropriated $300,000 to the Department of Mental Health to contract with an independent organization for the development of a comprehensive management information system. The measure required the department to submit a preliminary design to the Legislature by December 31, 1979.

The department did not select a consultant to design the system until the fall of 1980. Although the workplan for the project indicates that the design will be completed by January 30, 1981, department staff indicate that the report will be transmitted to the Legislature in March.

Staffing Requirements for Service Area Teams

We recommend that the department report to the fiscal committees by April 1, concerning the functions of and staffing requirements for the Service Area Teams.

In 1978, the department established six regional offices, or services areas, to provide (a) technical assistance to county mental health programs on clinical issues and (b) administration and management capability at the local level. In the current year, the regional offices have 72 staff to perform these functions. These staff are called Service Area Teams.

In February 1980, the department's director placed the field staff of the former Office of Mental Health Social Services under the administration of the Service Area Teams. This action added 363 staff to the Service Area Teams.

Prior to January 1, 1981, the Service Area Teams spent the major portion of their time conducting reviews of county mental health programs. These reviews were required by Chapter 1393, Statutes of 1978, which directed the department to evaluate all county programs by January 1, 1981. The measure also requires the department to conduct follow up reviews of the programs, but does not specify how often the follow up reviews must occur. Department staff indicate that now that the initial reviews have been completed, the teams will instead perform utilization and quality assurance reviews of the county programs.

The director of the department has been examining the functions and staffing requirements for the Service Area Teams, and will soon be making a final decision on these matters. We recommend that the department report to the fiscal committees by April 1 on the functions of and staffing requirements for the Service Area Teams.

2. STATE HOSPITALS—MENTAL HEALTH: ITEMS 444-011-001 and 444-101-001(a)

General Description.

The department operates two state hospitals—Metropolitan and Atascadero—and manages programs for the mentally disabled in four hospitals administered by the Department of Developmental Services.

Table 8
State Hospitals-Mental Disabilities Program
All Expenditures

	1979–80	*1980–81*	*1981–82*	*Change 1981–82 Over 1980–81* Amount	*Change 1981–82 Over 1980–81* Percent
Judicially Committed					
General Fund	$52,763,795	$60,325,789	$63,513,684	$3,187,895	5.3%
Special Adjustment	-	-	−621,970	621,970	-
Net General Fund	52,763,795	60,325,789	62,891,714	2,565,925	4.3
Reimbursements	834,279	3,896,033	3,650,078	−245,955	−6.3
Subtotals	$53,598,074	$64,221,822	$66,541,792	$2,319,970	3.6
Local Assistance					
General Fund	127,469,047	135,887,571	139,790,265	3,902,694	2.9
Special Adjustment	-	-	−1,170,811	1,170,811	-
Net General Fund	127,469,047	135,887,571	138,619,454	2,731,883	2.0
Subtotals	$127,469,047	$135,887,571	$138,619,454	$2,731,883	2.0
All State Hospital Expenditures					
General Fund	180,232,842	196,213,360	203,303,949	7,090,589	3.6
Special Adjustment	-	-	−1,792,781	1,792,781	-
Net General Fund	180,232,842	196,213,360	201,511,168	5,297,808	2.7
Reimbursements	834,279	3,896,033	3,650,078	−245,955	−6.3
Total	$181,067,121	$200,109,393	$205,161,246	$5,051,853	2.5%

DEPARTMENT OF MENTAL HEALTH—Continued

The budget proposes state hospital expenditures of $205,161,246 for programs serving the mentally disabled in 1981–82. This is an increase of $5,051,853, or 2.5 percent, above estimated current year expenditures. The budget proposes an appropriation of $201,511,168 from the General Fund, which is an increase of $5,297,808, or 2.7 percent above estimated current year expenditures. Table 8 shows actual, estimated and proposed expenditures for the mentally disabled program in state hospitals.

Table 9 shows adjustments to the current year base which were used to derive the proposed 1981–82 level of expenditures.

Table 9
State Hospitals—Mental Disabilities Program [a]
Summary of Budget Expenditure Changes
From the Current Year

	Adjustment	*Total*
1980–81 Budget Base		$200,109,393
Baseline adjustments:		
Benefits	$170,433	—
Merit salary adjustment	2,584,309	—
Price increase (operating expense)	2,829,596	—
Patton hospital overhead transfer	1,324,802	—
Reduction in reimbursed programs	−245,955	—
Budget Change Proposals:		
Camarillo Rd-Ed	−50,000	—
Patton security	66,100	—
Metropolitan security	165,349	—
Special Adjustment:	−1,792,781	—
Atascadero State Hospital	(−621,970)	—
Metropolitan State Hospital	(−1,170,811)	—
Total Adjustments		$5,051,853
1981–82 Expenditures		$205,161,246
General Fund		*201,511,168*
Reimbursements		*3,650,078*

[a] Includes $62,891,714 in Item 444-011-001 for Judicial Commitments and $138,619,454 in Item 444-101-011 (a) for Local Assistance.

Special Adjustments Reductions—State Hospitals

The state hospitals budget reflects a General Fund reduction of $1,792,781 for "special adjustments". Table 10 details these adjustments.

Table 10
Special Adjustment Reductions State Hospitals—
Mentally Disabled Program

	Special Adjustments	
Category	*Positions*	*Amount*
Operating expenses	—	−$566,114
Program consolidation	−26	−684,667
Reduction in Non-Level-of-Care Staff	−23	−542,000
Totals	−49	−$1,792,781

Revenue from County Match

Existing law requires that local programs provide a minimum of 10 percent match from local funds to obtain state hospital services for persons whom they admit to the hospitals. The county match requirement was waived for 18 months following the passage of Proposition 13. As of January 1, 1980, however, local programs were again required to pay their 10 percent share. The department estimates that it will collect $11,664,219 from the counties in 1981–82. These funds will be deposited in the General Fund as revenue.

Cross-Cutting Issues

A number of issues concerning the state hospitals involve both the Departments of Mental Health and Developmental Services. These issues are discussed in the "All State Hospitals" section of our analysis of the Department of Developmental Services budget request. This section begins on page 842 of the Analysis.

The following is a list of the issues and recommendations we make in that section that affect the Department of Mental Health.

1. ACR 103 Reports. We recommend that during budget hearings the department be prepared to discuss the status of its final ACR 103 report.

2. Non-Level-of-Care Positions. We withhold recommendation on the $27,690,407 requested for non-level-of-care positions in Item 444-101-001 (a), pending receipt of the non-level-of-care staffing standards required by ACR 103.

3. Operating Expenses. We withhold recommendation on the $11,146,778 requested in Item 444-101-001 (a) for operating expenses, pending receipt of the department's report on cost categories affected by population decline.

4. Mentally Disabled Programs in Hospitals Operated by the Department of Developmental Services. We recommend that (1) the directors of both departments appear jointly before the fiscal committees to justify the proposed reimbursement level for mentally disabled clients in developmentally disabled hospitals and (2) Budget Bill language be adopted requiring both departments to report jointly on the combined population levels in the hospitals.

5. Report by the Health and Welfare Agency. We recommend adoption of supplemental report language requiring the Health and Welfare Agency to report on the management problems created by joint administration of the hospitals.

Population Projections

We recommend that the department submit to the fiscal committees by April 1, 1981, information on the increasing number of penal commitments to the state hospitals.

When the budget for 1980–81 was introduced (January 1980), the department estimated that the number of mentally disabled beds in state hospitals would decline from 4,760 to 4,160 by the end of 1980–81, a reduction of 600 beds. The budget for 1981–82, however, estimates that the mentally disabled population will decline from 4,984 to 4,436 by the end of 1980–81—a decline of 548. During the budget year, the department projects that the number of patients will decline further, from 4,436 to 4,236, a reduction of 200 beds. Table 11 details the population projections set forth in the 1981–82 budget.

All of the bed reductions estimated for the current and budget years are scheduled to occur in hospitals operated by the Department of Developmental Services. We discuss the projected reductions in our analysis of the Department of Developmental Services budget, beginning on page 843.

Penal Commitments. The budget indicates that there has been a marked increase in the number of penal code clients in the hospitals. Narrative in the budget

DEPARTMENT OF MENTAL HEALTH—Continued

Table 11
Mentally Disabled
State Hospital Inhospital Population
at End of Fiscal Year
1977–78 to 1981–82

Department of Mental Health Hospitals	*Actual* 1978	1979	1980	*Estimated* 1981	*Projected* 1982
Metropolitan					
Local Programs	735	645	688	732	732
Penal Code	14	31	7	25	25
Other Agencies [a]	93	93	93	93	93
Subtotals	842	769	788	850	850
Atascadero					
Local Programs	145	118	77	32	32
Penal Code	772	772	831	886	886
Other Agencies	55	55	55	55	55
Subtotals	972	945	963	973	973
Department of Developmental Services Hospitals					
Camarillo					
Local Programs	870	847	765	506	406
Penal Code	18	36	36	—	—
Other Agencies	56	56	56	56	56
Subtotals	944	939	857	562	462
Napa					
Local Programs	1,192	1,190	1,141	1,003	913
Penal Code	166	160	208	88	88
Other Agencies	2	2	2	2	2
Subtotals	1,360	1,352	1,351	1,093	1,003
Patton					
Local Programs	188	198	166	122	112
Penal Code	721	742	775	788	788
Other Agencies	3	3	3	3	3
Subtotals	912	943	944	913	903
Stockton					
Local Programs	50	66	35	—	—
Penal Code	4	1	1	—	—
Other Agencies	45	45	45	45	45
Subtotals	99	112	81	45	45
Total Population					
Total Local Programs	3,180	3,064	2,872	2,395	2,195
Total Penal Code	1,695	1,742	1,858	1,787	1,787
Total Other Agencies	254	254	254	254	254
Total MD	5,129	5,060	4,984	4,436	4,236
Changes from Preceding Year					
Local Programs	−404	−116	−192	−477	−200
Percent Change	−11.3%	−3.6%	−6.2%	16.6%	−8.4%
Penal Code	−29	+47	+116	−71	—
Percent Change	−1.6%	2.7%	6.6%	−3.8%	—
Other Agencies	—	—	—	—	—
Totals	−433	−69	−76	−548	−200
	−7.8%	−1.3%	−1.5%	−10.9%	−4.5%

[a] "Other agencies" includes patients treated through contracts, including alcohol and drug programs.

states that the department will submit additional information on the status of penal code populations to the Legislature during budget hearings. We recommend that the department submit this information prior to budget hearings so as to provide the Legislature with sufficient time to review the information.

Population Reports Required. Section 28.31 of the 1980 Budget Act requires the department to report to the Legislature by October 1, January 15, and May 15 on the state hospital population levels. In addition, the language requires that, if the actual population exceeds the estimated population by 50 or more, the department must also report on the causes of the increased population level. The department has not submitted the October 1 and January 15 reports required by Control Section 28.31.

State Hospital Savings

Background. Populations in the state hospitals have been declining since the early 1960's. Data available from 1959–60 through 1979–80 show a population decline from 36,771 to 4,984 beds, a reduction of 31,787.

Traditionally, the department's budget proposes reductions of level-of-care staff to adjust for the population decline anticipated in the budget year. The department retains the funds associated with the positions, however, and, in theory, subsequently transfers the funds to local programs as the programs reduce their use of the state hospitals.

During hearings on the department's 1980–81 budget, the Legislature adopted Budget Act language which required the department to reduce non-level-of-care positions as well as level-of-care positions in adjusting for population decline. The Legislature also adopted supplemental report language requiring the department to evaluate all state hospital cost categories affected by population decline and to submit a report to the Legislature by November 1, 1980, which detailed a plan for reducing these costs in the future. The department has not submitted the required report.

1981–82 Proposed Transfer. Narrative contained in the budget states that $13.7 million in state hospital savings will be transferred to local mental health programs in 1981–82. The $13.7 million proposed for transfer includes actual and estimated savings for both non-level-of-care and level-of-care staff for a three-year period. Table 12 displays the sources of the savings, by fiscal year, according to department staff.

Table 12
State Hospital Savings
Proposed for Transfer to
Local Programs in 1981–82

Fiscal Year	*Bed Reduction*	*Amont Reduced Per Bed*	*Total Reduction*
1979–80	150		
Non-Level-of-Care Staff		$6,753	$1,012,875
1980–81	400		
Non-Level-of-Care Staff		6,753	2,701,200
Level-of-Care Staff		18,615	7,446,000
1981–82 [a]	200		
Non-Level-of-Care Staff		3,377	675,400
Level-of-Care Staff		9,308	1,861,500
Total	750		$13,696,975

[a] Only half of the amounts associated with staff are proposed for reduction in 1981–82.

DEPARTMENT OF MENTAL HEALTH—Continued

We have the following concerns about the administration's proposal.

1. *In the past, the 'savings' which should have been transferred to local programs has instead been reallocated to cover other expenditures.* For example, in 1978–79, $7,600,000 in savings associated with a decline in the number of clients placed by local programs was used to cover the increased costs of judicially committed clients. In 1979–80, the department reallocated $1,900,000 in savings to fund the 10 percent local share of services provided by the Office of Mental Health Social Services. Department staff indicate that the department may be required to reallocate savings in the current and budget years because of the increasing numbers of judicial commitments in the state hospitals and increases in operating expenses.

2. *The 'savings' projected for 1980–81 and 1981–82 are unlikely to occur.* For these savings to materialize, the state hospital population must decline by 677 before June 1982. We indicate in our analysis of the state hospitals on page 843 that a patient reduction of the magnitude is unlikely, given past trends.

3. *The transfer amounts are arbitrary.* Clearly, the hospitals should reduce more than just level-of-care staff as the population declines. These reductions, however, should not be made until after staffing requirements have been analyzed, and a rational plan has been developed detailing the relationship between population levels and staffing needs. On two occasions, the Legislature has asked for such a plan—first in 1978, by requiring the department to develop staffing standards for non-level-of-care positions, and second, in 1980, by requiring the department to analyze cost categories affected by population decline. The department has not responded to either legislative request. A deliberate plan for reducing non-level-of-care staffing is particularly necessary because of the existing maldistribution of these resources in the hospitals. (See pages 846 and 848). The administration intends to develop a plan to justify the amounts proposed for transfer to counties prior to the beginning of the budget year. In our view, the plan should have preceded the decision to obtain the projected savings of $13.7 million.

Patton State Hospital

We withhold recommendation on the augmentation of $1,324,802 budgeted in Item 444-011-001 to shift overhead expenses at Patton State Hospital from the Department of Developmental Services to the Department of Mental Health, pending receipt of justification for the amount. We recommend that the department review the costs included in the adjustment and, by April 1, 1981, provide to the fiscal committees specific justification of the amount needed to maintain required support services at the hospital.

The department's 1981–82 proposed budget includes $1,324,802 transferred from the budget of the Department of Developmental Services. This proposed transfer reflects the shift in certain overhead expenses from the program for the developmentally disabled to the program for the mentally disabled at Patton State Hospital.

Background. Currently, Patton State Hospital serves both mentally and developmentally disabled clients. As of November 25, 1980, Patton was serving 275 developmentally disabled and 951 mentally disabled clients.

The Department of Developmental Services is in the process of closing the program for the developmentally disabled at Patton. If client transfer and placements proceed according to schedule, the program will be closed by July 1, 1982.

The Department of Developmental Services has reduced the funds included in the 1981–82 budget for staff and operating expenses at Patton by $9,056,135. This reduction has been made to account for the decreased costs at the hospital resulting from phase out of the developmentally disabled program. The hospital's administrator, however, does not believe that the hospital can operate with a reduction of this size. Consequently, the hospital administrator reviewed the staffing in the hospital and determined that the hospital could withstand a reduction of approximately $7,731,333. The Department of Developmental Services accepted the hospital administrator's evaluation, and requested that the Department of Finance augment the Department of Mental Health's 1981–82 budget by $1.3 million. This augmentation was intended to provide funds for the staff which the hospital administrator believed were necessary for continued hospital operation. Accordingly, the Department of Finance reduced the $9,056,135 from the Department of Developmental Services's budget and added $1,324,802 to the Department of Mental Health's budget.

Our analysis indicates that the adjustment does not accurately account for the decreased expenditures which should occur with a population reduction of approximately 23 percent. For example, the hospital has 52 staff in food production, including 15 cooks, 4 supervisory cooks, and 18 food service workers. Yet the budget reduces ony 1 position in food production—a clinical dietitian. Additionally, the hospital has 14 automotive equipment operators in plant operations, but is not reducing any of these positions to adjust for the phase out.

Staff in the Department of Mental Health indicate that they are unable to justify the $1,324,802 adjustment because DMH staff were not involved in the development of the proposal. We conclude that because the adjustment represents an augmentation to the Department of Mental Health's budget, staff should familarize themselves with the proposal and justify the amount which is required for continued operation of the hospital.

We withhold recommendation of the augmentation of $1,324,802, pending receipt of additional information. We further recommend that the Department of Mental Health review the costs included in the adjustment and provide specific information on the appropriate amount to the fiscal committees by April 1, 1981.

Salary Savings Increase

We recommend that the amount budgeted for salary savings at two state hospitals be based on the method used in calculating salary savings at the other nine state hospitals, for a reduction in Item 444-101-001(a) of $437,189 from the General Fund.

In preparing a budget, all departments must include an amount for proposed salary savings. Such savings are expected to accrue due to vacant positions, leaves of absence, turnover, delays in filling positions, and the refilling of positions at the minimum salary range. The State Administrative Manual (SAM) requires that the amount of such savings be estimated according to past experience in filling vacancies and expected turnover and employment conditions in the coming year. Consequently, the rate and amount of salary savings varies among departments and agencies, reflecting the conditions peculiar to each.

The Department of Mental Health has budgeted salary savings of $3,085,802 for its two state hospitals, which is 5.8 percent of the amount included for personnel services. In contrast, the Department of Developmental Services has budgeted $19,332,831 in salary savings for the other nine hospitals, which is 6.6 percent of the amount included for personnel services in those hospitals.

The department has been unable to demonstrate that its two hospitals have a different salary savings experience than those operated by the Department of Developmental Services. In the absence of data which demonstrates different vacancy rates, turnover, leaves of absence, etc., we recommend that the salary savings rate used at the Department of Developmental Services hospitals be applied to the hospitals operated by the Department of Mental Health. Applying the 6.6 percent ratio to the department's personnel services request results in salary savings of $3,522,991, which is $437,189 higher than the amount proposed in the

DEPARTMENT OF MENTAL HEALTH—Continued

budget for 1981–82. Accordingly, we recommend deletion of the $437,189 from Item 444-101-001(a).

Stockton State Hospital

We recommend that the department report to the fiscal committees by April 1, 1980 on the savings which will result from closure of the program for the mentally disabled at Stockton State Hospital.

According to the budget, the program for the mentally disabled at Stockton State Hospital will be eliminated during 1980–81. We understand that the department is allocating local assistance funds to San Joaquin County to develop a community program to replace the state hospital program. The budget, however, does not reflect any savings from the closure of the program. We recommend that the department prepare a detailed evaluation of these savings and submit the evaluation to the fiscal committees by April 1, 1981.

Re-Education Program

We recommend a reduction of the amount budgeted for staff at Camarillo State Hospital to reflect savings which will result from implementation of the Re-education project, for a General Fund savings of $49,331 in Item 444-101-001(a).

The purpose of re-education projects is to demonstrate that seriously disturbed children and adolescents can be treated effectively in home-like environments by placing emphasis on education and skills for daily living.

The department will be establishing re-education projects in four locations during 1981–82—one at Camarillo State Hospital and three in county programs (Santa Barbara, Alameda and Ventura). The Camarillo project will be funded primarily with existing resources. The county projects will be established with funds provided in the 1980–81 augmentation. Because the department has not yet finalized plans for expenditure of the 1980–81 augmentations, specific information on the county re-education projects is not available. The department is proposing to relocate 16 children at Camarillo from the hospital to modular living units located on hospital grounds. The children will reside in the units where they will receive education and treatment services. Existing hospital staff will be used to provide treatment services after the staff have been trained in the methods of re-education.

The costs of implementing the project at Camarillo are (1) a one-time expenditure of $50,000 for site preparation, (2) $57,600 to lease the three modular units and (3) staff training costs. The department estimates that because the re-education model requires fewer medical and level-of-care staff, implementation of the project will result in first year savings of $99,331 in personal services and ongoing savings of $149,331 thereafter.

The department has reduced its budget by $50,000 to account for the savings which will result from implementation of the re-education project. Consequently, we recommend deletion of the additional $49,331 which the department estimates will be saved in the budget year.

Hospital Automation

We recommend deletion of the eight positions and $654,072 from the General Fund requested in Item 444-001-001 to automate certain hospital functions at Metropolitan State Hospital because the Departments of Mental Health and Developmental Services have not coordinated their approaches to automation. We further recommend that, prior to budget hearings, the department (1) report to the fiscal committees on its response to consultant recommendations on implementing a hospital automation system and (2) submit jointly with the Department of Developmental Services an analysis of the costs and benefits of implementing each of the proposed automation systems in all eleven hospitals.

The department is requesting eight positions and $654,072 to automate admissions and discharge functions at Metropolitan State Hospital.

Background. In its 1980–81 budget, the department requested $355,639 and eight positions to implement a hospital automation project at Metropolitan State Hospital. In reviewing the department's request, the Legislature became aware that the department had already procured a software package called the Patient Care System (PCS) which automates numerous hospital functions. The Legislature was also informed that the department had installed the system without (1) performing an adequate feasibility study, (2) requesting competitive bids, and (3) reviewing the impact of the system on automation requirements in other state hospitals. The fiscal committees approved funding for 5 positions on the condition that the department (1) contract for an evaluation of the most appropriate automation system for the hospital, (2) perform a joint hospital automation study with the Department of Developmental Services, and (3) report quarterly on its data processing activities. The Legislature also adopted Budget Act and supplemental report language which required the department to submit the reports described above and limited the use of the Metropolitan system to the automation of admissions and discharge functions.

Implementation of PCS. The department currently is attempting to implement the admissions, discharge and patient tracking element of PCS. However, because the project has not been implemented in a manner that provides the response time hospital staff require, the system is not being used on an ongoing basis. The department's request for 1981–82 includes funds to install a computer at Metropolitan to provide the necessary response time.

Consultant's Report. The department made a copy of the consultant's evaluation of hospital automation systems available in October 1980. The consultant recommended the Patient Care System, primarily because (1) PCS was the most flexible of the systems reviewed and (2) the department had staff familiar with the system. The consultant, however, reviewed the requirements only of the Department of Mental Health's two hospitals—Metropolitan and Atascadero. Consequently, the consultant's findings cannot be applied to the automation requirements for the other nine hospitals.

The consultant made a number of recommendations on implementation of the system. Specifically, he recommended that the department (1) develop a two-year plan outlining its management information system goals, (2) use an on-site computer instead of using the Health and Welfare Agency Data Center to provide users with an adequate response time, (3) establish a user group to identify and resolve problems, and (4) install the system at Atascadero State Hospital rather than Metropolitan.

To our knowledge, the department has not responded to the consultant's recommendations. We recommend that the department develop such a response and submit it to the fiscal committees prior to budget hearings.

Data Processing Reports. The Legislature required the department to report quarterly on its data processing activities. Consequently, the department should have submitted reports on September 1, 1980 and December 1, 1980. The department submitted the September 1 report on October 2, 1980. It has not submitted the report required on December 1.

Joint Hospital Automation Report. The Departments of Mental Health and Developmental Services have not yet submitted the joint report that was due December 1, 1980. A draft report submitted in January 1981 indicates that the two departments intend to maintain separate approaches to automating state hospital functions, even at those four hospitals that contain programs for clients of both departments. We discuss this issue on page 852 of this Analysis, where we recommend that, prior to budget hearings, the departments jointly prepare a report

DEPARTMENT OF MENTAL HEALTH—Continued

analyzing the costs and benefits of implementing each of their two proposed systems in all eleven hospitals.

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 cannot 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, or demonstrates the benefit of maintaining separate systems.

On this basis, we recommend deletion of the eight positions and $654,072 requested to automate the admissions and discharge functions at Metropolitan.

3. LOCAL MENTAL HEALTH PROGRAMS: ITEM 444-101-001

Proposed General Fund Support

The budget proposes an appropriation of $502,142,136 from the General Fund for assistance to local mental health programs in 1981–82. This is an increase of $7,606,378, or 1.5 percent, over estimated current year expenditures. Total proposed expenditures in 1981–82, including reimbursements, are $569,315,053, which is $7,606,378 or 1.4 percent, above estimated current year expenditures. Table 13 displays local assistance expenditures and funding sources for the prior, current and budget years.

Table 13
Department of Mental Health Local Assistance
1979–80 Through 1981–82

	1979–80	*1980–81*	*1981–82*[a]	*Change 1981–82 Over 1980–81* *Amount*	*Percent*
State Hospitals					
General Fund	$127,469,047	$135,887,571	$139,790,265	$3,902,694	2.9%
Special Adjustment	—	—	−1,170,811	−1,170,811	—
Net General Fund	127,469,047	135,887,571	138,619,454	2,731,883	2.0
Reimbursements	—	—	—	—	—
Total Expenditures	$127,469,047	$135,887,571	$138,619,454	$2,731,883	2.0%
Local Programs					
General Fund	$289,867,003	$358,648,187	$363,822,712	$5,174,525	1.4%
Special Adjustment	—	—	−300,030	−300,030	—
Net General Fund	289,867,003	358,648,187	363,522,682	4,874,495	1.4
Reimbursements	64,878,778	67,172,917	67,172,917	—	—
Total Expenditures	$354,745,781	$425,821,104	$430,695,599	$4,874,495	1.1%
Local Assistance Total					
General Fund	$417,336,050	$494,535,758	$503,612,977	9,077,219	1.8
Special Adjustment	—	—	−1,470,841	−1,470,841	—
Net General Fund	417,336,050	494,535,758	502,142,136	7,606,378	1.5
Reimbursements	64,878,778	67,172,917	67,172,917	—	—
Total Expenditures	$482,214,828	$561,708,675	$569,315,053[a]	$7,606,378	1.4%

[a] Includes $4,600,000 proposed for reappropriation in Item 444-490.

Of the $502,142,136 requested from the General Fund to provide local assistance to county programs $138,619,454, or 28 percent, is budgeted to support local mental health clients receiving state hospital services. We discuss the state hospitals on page 883.

The General Fund amount budgeted for local mental health programs, excluding state hospitals, is $363,522,682, which is $4,874,495, or 1.4 percent, above estimated current year expenditures of $358,648,187. Table 14 displays local program expenditures and funding sources for the past, current and budget years.

Table 14
Department of Mental Health
Local Mental Health Programs (Excluding State Hospitals)
Total Expenditures
1979–80 through 1981–82

				Change 1981–82 Over 1980–81	
	1979–80	*1980–81*	*1981–82*[a]	*Amount*	*Percent*
General Fund					
A. Prevention Contracts	$669,757	$897,743	$817,500	−$80,243	−8.9%
B. County Programs	288,883,586	357,436,784	358,091,552	654,738	.2
C. Reappropriation for County Programs	—	—	4,600,000	4,600,000	100.0
D. Local Mandates	313,660	313,660	313,660	—	—
E. Special Adjustment	—	—	−300,030	−300,030	100.0
Net General Fund	289,867,003	358,648,187	363,522,682	4,874,495	1.4
Reimbursements	64,878,778	67,172,917	67,172,917	—	—
Total Expenditures	354,745,781	425,821,104	430,695,599	4,874,495	1.1

[a] Does not include $13,696,625 which the administration states will be transferred from the hospitals to local programs in 1981–82. Does include $4,600,000 reappropriated in Item 444-490.

Table 15 details proposed General Fund expenditure changes for local programs from the current year.

Table 15
Department of Mental Health
Local Mental Health Programs
(excluding state hospitals)[a]
Proposed General Fund Adjustments
1981–82

	Adjustment	*Total*
1980–81 Budget Base		$363,248,187
Baseline Adjustments:		
Merit Salary Adjustment	$214,295	
Price Increase	386,806	
Utilization Review Contract Transfer	500,000	
We Care Contract Transfer	−164,957	
Special Adjustment	−300,030	
Programs Funded in Prior Legislation		
1. Chapter 259, Statutes of 1979—Rollover	−3,000,000	
2. Chapter 1144, Statutes of 1979—Tuolumne General	−102,657	
3. Chapter 1194, Statutes of 1979—Case Management	−500,000	
4. Chapter 1172, Statutes of 1979—Prevention	−80,243	
5. Chapter 1239, Statutes of 1980—San Joaquin	−3,000,000	
6. Chapter 1291, Statutes of 1980—Aging	−78,719	
Augmentations[b]		
New Programs	1,800,000	
Reappropriation of 1980–81 Local Program Savings	4,600,000	
Total Adjustments		274,495
1981–82 Budget		$363,522,682

[a] Funds budgeted in local assistance for state hospitals provide an additional amount of $138,619,454 from the General Fund.

[b] Does not include $13.7 million which the administration states will be transferred in 1981–82 from the state hospitals to local programs.

DEPARTMENT OF MENTAL HEALTH—Continued

Short-Doyle/Medi-Cal Local Programs

Background. Since 1971, Medi-Cal funds have been included as part of the allocation for local mental health programs. The General Fund share of Medi-Cal is appropriated to the Department of Mental Health. The federal fund share, however, is appropriated to the Department of Health Services. To obtain the federal share of the allocation, counties must bill the Department of Mental Health, which bills the Department of Health Services. The department's budget assumes that $82 million will be allocated to the counties for Short-Doyle/Medi-Cal in 1981-82, ($41 million federal funds and $41 million General Fund).

For several years, the federal government has been examining the use of federal funds for local mental health programs. 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 medicaid law and regulations. Because these issues have not been resolved (1) the federal government has been withholding a portion of the funds requested for Short-Doyle/Medi-Cal from the advances it provides to the Department of Health Services and (2) the Department of Health Services has been refusing payment for a portion of the claims submitted to it by the Department of Mental Health. For example, to date, the Department of Mental Health has received only $10.6 million in federal Short-Doyle/Medi-Cal reimbursements for 1979-80, although its 1979-80 budget assumed reimbursements of $41 million. During the current year the department has had to redirect $5.4 million from local program savings to cover provider costs which the Department of Health Services will no longer pay.

Claims System Required. The federal government has informed the administration that it will refuse to reimburse Short-Doyle/Medi-Cal providers after July 1, 1981 if the state does not establish a claiming system which meets Medicaid requirements.

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 reimburseable 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 administration is requesting a total of 20 new positions, and $1.2 million to address the issues raised by the federal government with respect to the Short-Doyle/Medi-Cal program. These positions are in addition to 16 positions presently assigned to the Short-Doyle Medi-Cal function. Ten of these new positions would be established in the Department of Health Services, three would be in the Department of Alcohol and Drug programs and the remainder would be in the Department of Mental Health. Table 16 details existing and proposed positions.

Table 16
Short-Doyle/Medi-Cal
Existing and Proposed Positions Department of

	Department of Mental Health[a]			*Department of Health Services*[b]			*Department of Alcohol and Drug Programs*[c]			*All Departments*		
	Existing	*Proposed*	*Total*	*Existing*	*Proposed*	*Total*	*Existing*	*Proposed*	*Total*	*Existing*	*Proposed*	*Total*
Technical Assistance	6	3[e]	9	–	–	–	–	1	1	6	4	10
Utilization Review	–	–	–	4	6	10	–	–	–	4	6	10
Policy Development	1	4	5	–	–	–	–	1	1	1	5	6
Compliance Monitoring	–	–	–	–	1	1	–	–	–	–	1	1
Financial Audits	4[d]	(4)[d]	4[d]	–	–	–	–	1	1	4	1	5
Claims Processing	1[d]	(1)[d]	1[d]	–	2	2	–	–	–	1	2	3
Rate Development ..	–	–	–	–	1	1	–	–	–	–	1	1
Total Positions...........	12	7	19	4	10	14	0	3	3	16	20	36
Amount......................	$384,988	$258,011	$642,999	$248,170	631,686	$879,856	–	$150,620	$150,620[c]	$633,158	$1,204,218	$1,706,763

[a] Funded 40 percent federal, 60 percent state.
[b] Funded 63 percent federal, 37 percent state.
[c] Funded 57 percent federal, 43 percent state.
[d] Authorized for 1980-81 only, seeking reestablishment through July 1, 1983.
[e] Seeking establishment through July 1, 1983

DEPARTMENT OF MENTAL HEALTH—Continued

Programs are Different. The Medi-Cal program and Short-Doyle program are fundamentally different, even though both programs fund services for mentally disabled persons. Medi-Cal is a highly structured, centralized, medically orientated program with numerous service limitations. The controls on service in the Medi-Cal program are intended to prevent the delivery of unnecessary services, and to keep expenditures to the minimum.

The Short-Doyle program, in contrast, is decentralized and varies greatly from county to county. The program offers a wide range of services, and its primary orientation is social-rehabilitation rather than medical. The oversight role of the state in the Short-Doyle program is minimal. Consequently, there are few limitations on the amount or types of services which can be funded from the program.

In the past, the Short-Doyle/Medi-Cal program has been virtually identical to all other portions of the Short-Doyle program. If the state is to continue receiving federal support for the Short-Doyle/Medi-Cal program, the program will have to be substantially altered.

The Administrations' 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 to retain federal matching funds. The administration has made the decision to place at least some of the features of Medi-Cal fee-for-service controls on a portion of the Short-Doyle program. Whether this will satisfy federal requirements is not known. It may be that the state will have invested substantial resources in restructuring the Short-Doyle/Medi-Cal program, only to discover that the amount of federal funds provided under the more restrictive procedures equals the amount the Short-Doyle programs could bill through the regular fee-for-service mechanism. In any event, it is unlikely that county programs will receive the $41 million in federal Medi-Cal funds which is assumed in the Governor's 1981-82 Budget.

Short-Doyle/Medi-Cal: Position Requests

We recommend (1) approval of the four positions requested for Short-Doyle/Medi-Cal policy development on a lmited term basis, (2) approval of the five positions requested for financial audits and (3) deletion of the three positions requested to provide technical assistance to counties, for a reduction of $117,648 in Item 444-001-001 ($47,059 from reimbursements and $70,589 from the General Fund).

In 1980–81, the department requested 14 positions to work on Short-Doyle/Medi-Cal problems—five positions to perform financial audits of Short-Doyle/Medi-Cal providers and nine positions to provide technical assistance to counties on utilization review. The Legislature authorized the five audit-related positions for one year, and authorized six of the nine utilization review positions, for a total of 11 authorized positions.

For 1981–82, the department is requesting 12 positions and $421,912 to support various functions related to the administration of the Short-Doyle/Medi-Cal program. Specifically, the department is requesting (1) four positions (three program analysts and one secretary) and $140,363 to develop policies and procedures for the Short-Doyle/Medi-Cal program, (2) $163,901 and reauthorization for the five audit-related positions authorized in 1980–81, and (3) three positions and $117,648 to provide technical assistance to counties on complying with Medi-Cal regulations. The five audit-related positions and the three technical assistance positions are requested on a limited term basis until July 1, 1983. Of the $421,912 requested, 40 percent, or $168,765, is from the General Fund and 60 percent, or $253,147, would be funded through federal reimbursements.

Policy Development Staff. Presently, the department has one full time position working to resolve Short-Doyle Medi-Cal problems. The department is requesting three additional analysts and one secretary to augment staff for this purpose. According to the department's budget change proposal, the staff will work on numerous projects aimed at increasing the amounts of federal Medi-Cal funds which mental health programs can receive. These projects include (1) developing standards for day treatment and day care services, (2) developing a fiscal control system for Short-Doyle/Medi-Cal, (3) developing licensing and certification requirements for Short-Doyle/Medi-Cal providers, and (4) developing an acceptable Short-Doyle/Medi-Cal reimbursement system. Allocating staff to the department to work on these issues is basic to the administration's approach to resolving Short-Doyle/Medi-Cal compliance issues. We discuss this approach to the issue on page 781 of the Analysis.

We recommend approval of the requested positions. However, because the projects which staff will be working on are short-term in nature, we recommend that they be established on a limited term basis, until July 1, 1983.

Audit Request. The department proposes to reestablish the five positions approved last year on a limited basis through June 1983. The department states that, although the functions which staff perform will be automated for claims submitted after July 1, 1980, two years will be necessary to audit claims submitted for services provided before that date. We recommend approval of the department's request.

Technical Assistance. The department is requesting three positions on a limited term basis to provide technical assistance to counties on Medi-Cal regulations.

Our analysis indicates that it is not necessary to establish new positions to provide technical assistance to the counties on compliance with Medi-Cal regulations. The Legislature authorized six positions in the current year for this purpose and two of these positions have not been filled. Additionally, the department has 71 staff in the service area teams working with counties and service providers. We have noted in our discussion on page 883 that the department is reviewing the workload for these staff. The department can and should utilize existing staff to assist the counties in their efforts to comply with Medicaid regulations. Accordingly, we recommend that these three positions be deleted.

Prior Year Augmentations

We recommend that the department report to the fiscal committees by April 1 on estimated local program expenditures for projects funded through the $25,000,000 1980–81 augmentation.

In each of the last few years, the Legislature has augmented local mental health programs to (1) accelerate the placement of state hospital residents in the community and (2) fill "unmet needs" in local programs. The following is a review of the 1979–80 and 1980–81 augmentations.

1979–80 Budget. The Legislature appropriated a $25 million augmentation for local programs in 1979–80; $15 million to develop community programs to replace 30 state hospital beds, $6.8 million to develop community programs according to the treatment system model established by Chapter 1233, Statutes of 1978, and $3.2 million for a variety of state and local activities.

State Hospital Programs. In 1979–80, county programs expended $8,974,823 of the $15 million appropriated to develop local programs to replace 300 state hospital beds. The entire $15 million (adjusted for cost of living) was included as part of the base budget for 1980–81.

In 1979–80, the number of beds actually used by local programs declined by 192. However, there is no evidence that the reduction resulted from the augmentation. The number of persons in the state hospitals has been declining annually since the early sixties, and these declines occurred in years in which no augmentation was provided to local governments.

The Office of Statewide Health Planning and Development analyzed the rela-

DEPARTMENT OF MENTAL HEALTH—Continued

tionship between the amount of non-hospital services available in the community and the use of state hospitals, and published the data in the Public Hearing Draft, State Health Plan 1980–85. According to the plan, "Higher volumes of non-hospital services were not associated with lower (state) hospital use. For outpatient volume, higher supply was correlated with higher use of local and state hospitals."

Department staff indicate that based on the expenditure plan reported for the first quarter of 1980–81, the counties are expected to spend the entire budgeted amount of $16,073,000 ($15 million, adjusted for inflation) in the current year.

Treatment Sytem Programs. In 1979–80, the Legislature augmented the budget by $6.8 million for treatment systems. This was in addition to (1) $3 million in the proposed budget and (2) $2 million remaining from Chapter 1233 and carried over from 1978–79. Thus, a total of $11.8 million was provided for treatment systems programs in 1979–80. The department's 1981–82 budget shows that actual expenditures for that year were $7 million.

Chapter 1233 required the department to evaluate the treatment system program and submit a report to the Legislature by December 31, 1980. The department, however, is just now preparing to conduct the evaluation. The department indicates that the evaluation will be submitted to the Legislature in March 1982.

1980–81 Budget. In the 1980–81 budget, the Legislature authorized an additional augmentation of $25 million to local programs for various purposes, and reappropriated savings in an unspecified amount not to exceed $7 million from the 1979–80 allocation for local programs. ***To date, the department has not authorized counties to spend any of the funds appropriated to augment local programs.***

State Hospital Programs. The Legislature appropriated $15 million to establish performance contracts with local programs to reduce their use of state hospital beds; $5 million for regional programs and $10 million for county programs. Currently, staff in the Service Area Teams are negotiating performance agreements with the counties. Although final data will not be available until this process is completed, the proposals which counties submitted called for reducing 400 state hospital beds one year after the programs are established. The department indicates that, because funds will be allocated so late in the fiscal year, it will not provide full year funding for local program proposals.

Unmet Program Needs. The Legislature appropriated $10 million to fund unmet needs in local programs, and specified that (1) the funds be allocated based on the allocation methodology developed by the Conference of Local Mental Health Directors and (2) that $3.6 million of the funds be expended for programs funded through the "treatment system" (Chapter 1172, Statutes of 1978) approach. ***The department has not yet authorized counties to spend the $10 million.*** Again, the department indicates that it will not provide full year funding to the programs because the funds are being allocated so late in the year.

Reappropriation. The Legislature also reappropriated an unspecified amount from local program savings in 1979–80 which was not to exceed $7,000,000. ***The department has not allocated these savings*** because it does not yet know the actual amount of savings available for 1979–80. Only 25 of the 58 local mental health programs have submitted their final cost reports for 1979–80. Until all the programs have submitted their cost reports and the department determines how much federal funding will be lost to local programs as a result of Short-Doyle/Medi-Cal funding restrictions, the department will not know the amount of savings actually available for reappropriation.

Augmentation Savings. Because local programs have not yet received authorization to spend any of the augmentation funds, a major portion of the augmentation will not be spent in 1980–81. At this time, the department has no data on the savings which will actually occur because it has not finalized expenditure plans for the augmentation. However, the department has already planned expenditures for $10 million in anticipated 1980–81 savings. In a letter to the Chairman of the Joint Legislative Budget Committee, dated December 2, 1980, the Director of the Department of Finance notified the Legislature that the Department of Mental Health would be reallocating $5.4 million in 1980–81 savings to cover the cost of certain local programs which have lost federal funds because of recently imposed Short-Doyle/Medi-Cal restrictions. Additionally, the 1981–82 budget, as proposed, provides for reappropriation of the $4.6 million in savings from 1980–81. We discuss the proposed reappropriation on page 887.

Because the amount of savings in 1980–81 will affect funding requirements for 1981–82, we recommend that the department report to the fiscal committees by April 1 on the amounts of the augmentation funds allocated to local programs for 1980–81. This report should include (a) an itemized list of projects funded, by county, (b) the annualized cost of each project, (3) the number of months the project will operate in 1980–81, and (d) the amount allocated to the project for operation in 1980–81.

1981–82 Budget Proposal

We recommend deletion of the $1,800,000 budgeted for new local programs in Item 444-101-001 (b) because the department has not explained how the funds would be used.

The budget does not request funds specifically for a cost of living adjustment for local mental health programs. The administration has set aside $509 million to fund cost of living adjustments for programs like local mental health programs which do not have statutorily mandated cost of living adjustments.

Nevertheless, the budget indicates that local programs will receive a $20 million augmentation for 1981–82. The funding sources for this augmentation are as follows:

(1) $13.7 million in anticipated state hospital savings appropriated in Item 444-101-001 (a).

(b) $4.6 million in local program savings from 1980–81, which would be reappropriated by Item 444-490.

(c) $1.8 million in new funds appropriated in Item 444-101-001 (b).

We discuss the feasibility of achieving a $13.7 million savings in state hospital expenditures as part of our analysis of the state hospitals' budget on page 885. In that discussion, we noted that (1) savings resulting from decreased use of the hospitals by county programs have not been transferred to local programs in the past, (2) the amount of savings is based on a population decline which is unlikely to occur, and (3) the amount proposed for transfer is arbitrary. We discuss specific problems with the proposed $4.6 million reappropriation in our analysis of Item 444-490, which is found on page 907.

The administration has not demonstrated the need for additional funds in local progra[illegible] has it explained how the additional funds would be used. On January 6, we r ed that the department explain (1) how it intended to spend any additic ıds received in 1981–82 and (2) how the funds would be allocated. The d ent has not responded to our request, and staff indicate that no specifi ıditure plan for additional funds has been developed. Without this inforn ve have no basis on which to recommend the approval of an augmentation, ana consequently, we recommend deletion of the $1,800,000 budgeted for new programs.

Special Treatment Program

We recommend deletion of the $1,714,760 budgeted in Item 444-101-001 (b) to fund the General Fund share of the Special Treatment program because these funds are budgeted in another budget item.

DEPARTMENT OF MENTAL HEALTH—Continued

Medi-Cal provides a supplemental rate to skilled nursing facilities which provide treatment to mentally disabled clients. To be eligible for the supplement of $5.68 per day, the facilities must have their treatment program reviewed and approved by the department. Presently, 28 facilities have approved treatment programs. The cost of the Special Treatment program is estimated at $3,429,520 in 1981–82.

The Department of Mental Health is requesting $1,714,760 to fund the General Fund share of the Special Treatment program in the budget year. Our analysis indicates that the funds are not necessary.

Presently, facilities offering the Special Treatment program receive full reimbursement for their basic provider rate and special treatment program through the Department of Health Services. The facilities have been including the claims for the treatment program with their claims for basic skilled nursing services, which are submitted to the fiscal intermediary for payment. Consequently, the General Fund share of the treatment program is paid through the fiscal intermediary. Because the Department of Health Services is paying the General Fund share of the program from the department's appropriation, the Department of Mental Health should not budget for it.

The Department of Mental Health indicates that it is seeking appropriation of the funds in the expectation that the Department of Health Services will bill the department for the General Fund share.

The Department of Health Services has never billed the Department of Mental Health for the match. In any event, funds for this program should not be budgeted twice. For these reasons, we recommend deletion of the $1,174,760 budgeted to provide the General Fund share of the Special Treatment program.

Prevention Contracts

We withhold recommendation on the $817,500 budgeted for prevention contracts pending receipt of the department's report detailing (1) how funds were used in 1980–81 and (2) how funds would be used in 1981–82.

The budget proposes $817,500 from the General Fund to fund prevention contracts in 1981–82.

Background. The department first received funds for prevention contracts in the 1979–80 budget. The budget, as proposed, included $225,000 for the contracts. The Legislature augmented the amount by $750,000, but the Governor vetoed the augmentation. Subsequently, the Legislature appropriated, and the Governor approved, an identical amount in Chapter 1172, Statutes of 1979.

In 1980–81, the budget, as introduced, proposed $1,067,500 for the contracts. The Legislature reduced the amount to $817,500, for a reduction of $250,000. Because the department had $80,243 in savings from the $750,000 appropriated by Chapter 1172, the total amount available for expenditure in 1980–81 is $897,743.

Report Overdue. During hearings on the department's 1980–81 budget, the Legislature also adopted supplemental report language which required that the department submit report to the fiscal committees by January 10, 1981, summarizing the prevention projects and activities funded through the present contracts during the current year. The language specified that the report should describe specific project accomplishments, identify project benefits, and justify any expanded or new activities proposed for 1981–82. As of February 6, 1981, the department had not submitted the required report.

Expenditure Plans Unknown. On December 11, 1980, we requested the following information from the department:

1. How the funds budgeted for contracts in 1980–81 were being spent and,
2. How the department intended to spend the contract funds in 1981–82. The department has not responded to our request for information. Staff indicate that

the department will not be able to explain how the funds will be used in 1981–82 until the Health and Welfare Agency approves the requests for proposals that the department has developed for 1980–81 contracts.

In the absence of information describing how the funds budgeted for prevention contracts in 1981–82 will be spent, we cannot review the appropriateness of the department's proposal. Consequently, we withhold recommendation on the $817,-500 budgeted for prevention contracts, pending submission of the report required on prevention activities.

Table 17
Legislative Workgroup Standards
Summary of Standards per 100,000 Population

Program Category	*Program/ Facilities Required*	*Estimated Number Persons[a] Served Annually*	*Estimated Annual Units of Service*	*Estimated Cost per Unit of Service*	*Adjusted Gross Cost[b]*
1. 24-hour Acute, Intensive Care	15 beds	310	4,654 days	$232 (a)	$714,500
(a) Hospital	4(a)				
(b) Non-Hospital	11(b)				
2. Short-Term Crisis Residential	10 beds	220	3,102	95	294,700
3. 24-Hour Transitional					
(a) Transitional residential	20 beds	40	6,570	75	492,750
(b) Semi Independent Living	15 beds	60	(Program Costs included in Community Support and Other Categories)	75	-
4. Long-Term Rehabilitative Care	40 beds	40	13,870	32	443,840
5. Supervised Out-of-Home Placement	60 beds	60	(Program Costs Included in Community Support and Other Categories)	-	-
6. Emergency Services					
(a) and (b) Evaluation, Treatment, and Holding	Emergency Unit	1,000	1,000	175	175,000
(c) Crisis Intervention	2 FTE[c]	1,820	1,820	25	48,750
7. Acute Day Treatment	7 FTE	160	7,000	50	350,000
8. Outpatient	20 FTE	2,000	16,250	50	812,500
9. Case Management	8.6 FTE	400	4,800	75	357,500
10. Community Support	13 FTE	600	NA[d]	NA	528,750
11. Community Services	6 FTE	NA	6,000 hrs.	50	292,500
12. Mental Health Advocacy	5-1 FTE	NA	NA	NA	18,750
13. Services to Justice System	NA	520	NA	NA	181,100
Grand Total					$4,710,640

[a] Persons will receive services in several programs, therefore this column will not yield unduplicated client count.
[b] At 1979 rates.
[c] All full-time equivalents (FTE) refer to professional staff only.
[d] NA not applicable.
[e] Total excluding services to Justice System = $4,529,540; Non-24 hours subtotal, excluding Justice System = $32,583,750.

DEPARTMENT OF MENTAL HEALTH—Continued

Legislative Workgroup Standards

During 1979, a coalition of provider and consumer groups, called the legislative workgroup, developed a set of standards detailing the types and amount of mental health services which, in the group's judgment, are required to provide minimum levels of services in county mental health programs. The standards were used as the basis for allocating augmentations in 1979–80 and 1980–81. The coalition views the standards not only as the basis for allocating funds but also as a documentation of the need for additional funding.

The standards detail by program category, the appropriate level of service per 100,000 population. We understand that the legislative workgroup has revised the standards since they were submitted to the Legislature in January 1980. Table 17 details the standards as they existed at that time.

We have three concerns over the standards developed by the conference.

1. The standards have been negotiated by coalition members and have not been reviewed or assessed through an objective evaluation. Further, the fluid nature of the standards make it difficult to evaluate what impact allocating funds using the standards would have. The 1980 Budget Act requires the department to assess the validity of the standards. The department is presently completing the evaluation. However, because the standards have apparently been revised during the current year, the evaluation may no longer be valid.

Table 18
Public Expenditures for the Mentally Disordered
1977–78
(in millions)

Outpatient Services, Short-Doyle	$139.5	
Outpatient Services, Medi-Cal Fee-For-Service	42.0	
Outpatient, Total		$181.5
State Hospitals, Short-Doyle	98.7	
State Hospitals, Judicially Committed	35.2	
Local Hospitals, Short-Doyle	90.3	
Local Hospitals, Medi-Cal Fee-for-Service	48.6	
Hospitals, Total		272.8
24-Hour Care, Non-hospital, Short-Doyle	14.8	
24-Hour Care, Non-hospital, Medi-Cal	50.0	
24-Hour Care, Non-hospital, Total		64.8
Partial Day Services, Short-Doyle		52.7
Community Services, Short-Doyle		33.8
Community Programs for the Judicially Committed		2.9
Continuing Care Services, Short-Doyle		17.2
Federally Supported Community Mental Health Centers		23.7
Prescription Drugs, Medi-Cal		8.0
Administration, Short-Doyle	9.7	
Administration, State	20.4	
Administration, Total		30.1
Subtotal, Public Mental Health		687.5
Supplementary Security Payment	230.0	
Worker's Disability, OASDI	141.1	
Subtotal, Disability Payments		371.1
Total		$1,058.6
Amount Funded through Short-Doyle		317.2
Amount Funded from Other Sources		741.4

Source: Office of Statewide Health Planning and Development. California State Health Plan: 1980–85.

2. The role of the standards in the Short-Doyle planning process is unclear. Existing law specified that each local program project its program and funding needs in its Short-Doyle Mental Health plan. The relationship between the standards and the Short-Doyle planning process has not been explained.

3. The data demonstrating need for additional funds fails to adequately account for funding resources outside the Short-Doyle system. For example, in 1980–81, the state will provide approximately $111 million for mental health services under the fee-for-service Medi-Cal system. The standards do not account for these funds, nor other funds available to local programs through SSI/SSP, In-Home Supportive Services and other social services programs. Data published by the Office of Statewide Health Planning in the Public Hearing Draft of the California State Health Plan 1980–85 indicate that Short-Doyle accounted for only approximately 30 percent of public funds spent for mental disorders in California in 1977–78. Table 18 displays data from that report.

In our judgment allocating funds on the basis of the workgroup standard would only compound the already inequitable distribution of the Short-Doyle funds. Urban areas receive the greatest amount per capita in Short-Doyle Funds. They also tend to have greater access to providers of fee-for-service Medi-Cal and social services. Because the workgroup standards do not account for these additional resources, the urban areas receive a greater proportion of the funds than would be justified if all resources were included.

Further, providing additional funding on the basis of need, as identified by the standards, is unwise because, as we have noted, the standards do not account for all of the public resources available to care for the mentally disabled.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY

Item 444-301 from the General Fund, Special Account for Capital Outlay — Budget p. HW 128

Requested 1981–82	$5,906,375
Recommended approval	148,375
Recommended reduction	93,750
Recommendation pending	5,664,250
Recommended augmentation	15,550
Net recommended approval	$163,925

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Fire and Life Safety and Environmental Improvements. Withhold recommendation on alterations to patient-occupied building pending submission of updated population projections and construction cost estimate. 904
2. Handicapped Accessibility Alterations. Recommend Budget Bill 905

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY —Continued

language be adopted requiring that the State Public Works Board defer allocation of any construction funds for this work until California Administrative Code regulations for handicapped access in public buildings have been adopted.

3. *Minor Capital Outlay. Reduce by $93,750.* Recommend budget be reduced by deleting two projects which are not justified. 906
4. *Minor Capital Outlay. Increase by $15,550.* Recommend budget be augmented based on current cost estimate for earthquake safety modifications to elevators at Atascadero State Hospital. 907
5. Minor Capital Outlay. Withhold recommendation on $38,200 for earthquake safety modifications to an elevator at Metropolitan State Hospital pending engineer's survey of needed modifications. 907

ANALYSIS AND RECOMMENDATIONS

Fire and Life Safety and Environmental Improvements

We withhold recommendation on Item 444-301-036(a), working drawings and construction of fire and life safety and environmental improvements, Metropolitan State Hospital, pending submission of additional information by the department.

Item 444-301-036(a) proposes $5,626,050 for fire and life safety and environmental improvements (FLSEI) at Metropolitan State Hospital.

Table 2 in our analysis of the Department of Developmental Services Capital Outlay (Item 430-301, p. 865) shows previously approved funds and proposed funds for FLSEI projects at all eleven state hospitals including mental health facilities. The FLSEI program will modify existing buildings to meet licensing and certification requirements. Sufficient space will be remodeled to accommodate the projected 1982 population of 3,636 mentally disabled (MD) clients included in the department's "Plan of Correction."

Population Report Due to Legislature. Chapter 64, Statutes of 1979, requires the Department of Mental Health to report to the Legislature on population and alternative treatment programs to state hospitals. A preliminary report was due on September 1, 1979, and the final report was to be submitted by February 1, 1980.

As of January 1981, the department has not provided either of the statutorily required reports. Consequently, we do not have the information necessary to evaluate the need for renovating the proposed amount of space or the related funds. The department indicates that a final report on population will be available in March 1981. We will analyze the department's report and submit our findings to the fiscal subcommittees prior to hearings on the budget.

Project Cost Data Inadequate. The construction funds requested for altering space at Metropolitan State Hospital are based on an estimate prepared by the Office of State Architect in May 1980. The estimate does not account for any inflationary price increases which may have occurred between the time this estimate was prepared and July 1, 1981, the cost basis of all construction requests included in the Budget Bill. Prior to budget hearings the State Architect should provide the Legislature with an updated estimate which reflects the anticipated costs of the needed work, in accordance with the Department of Finance instructions to include construction funds based on July 1981 costs.

In summary, the department's request for funds is not based on adequate population and cost information, and the department should provide the needed information prior to budget hearings. Consequently, we withhold recommendation on this item pending receipt of this information.

Project Delayed Due to Air-Conditioning and Energy Efficient Improvements. The Budget Act of 1980 provided funds under Item 544(b) for (1) fire and life safety improvements to the CTE building ($6,835,391) and (2) air conditioning with conservation equipment of the CTE building ($1,872,264). These projects were to be undertaken in tandem. While working drawings have been completed for the FLSEI improvements to the CTE building, the project has not proceeded into construction because the department has proposed to change the design of the proposed air conditioning conservation improvements.

The proposed air conditioning/conservation improvements were requested by the department so that a maximum temperature of 78°F can be maintained in these buildings during the summer cooling season. The 78°F design temperature has been approved by licensing agencies at other state hospital locations. The Department of Mental Health, however, has since indicated that this temperature is inadequate for the CTE building, and that 72°F should be the design temperature. Because adequate funds are not available to accomplish the more stringent modifications proposed by the department, the project has not proceeded. This delay, in turn, has increased the cost of the project still further because of inflation. The Department of Mental Health should report to the Legislature prior to budget hearings on its plan for proceeding with fire and life safety and air conditioning/conservation equipment improvements at this state hospital.

Handicapped Accessibility Statewide

We recommend approval of Item 444-301-036(b), $126,525 for construction of modifications to buildings to meet handicapped access requirements. Further, we recommend that Budget Bill language be adopted requiring the State Public Works Board to defer allocation of any construction funds appropriated in this item until regulations for handicapped access in public buildings have been adopted in the California Administrative Code.

The budget proposes a total of $126,525 to alter hospital facilities to eliminate architectural barriers to the handicapped. These alterations include curb ramps, entry signs, interior identifications, handrails, and restroom facilities. The requested amount includes $27,225 to modify the visitors and administration buildings at Atascadero State Hospital, and $99,300 to modify the administration, canteen, volunteer center and library facilities at Metropolitan State Hospital.

The proposed modifications for handicapped access are the result of surveys of all hospital facilities conducted by the Facilities Planning Section of the Department of Mental Health. The department has established four priority categories for implementing alterations to provide access to the handicapped.

- Phase I—provide handicapped access to patient-occupied buildings (part of the fire and life safety and environmental improvement program.)
- Phase II—provide access to public areas at the state hospitals—administration buildings, school buildings, auditoriums, churches, and canteens.
- Phase III—provide access to employee work areas at hospitals.
- Phase IV—proposes modifications of other existing buildings which are proposed to be vacated due to population reductions but which may be utilized for other purposes in the future.

The funds proposed in the budget would implement phase II alterations at Atascadero and Metropolitan State Hospitals. Our review of the modifications proposed by the department indicate that they are largely based on proposed regulations developed by the Office of State Architect (OSA). The Budget Act of 1980 states that the State Architect cannot implement the proposed regulations until the Legislature has reviewed the regulations. The OSA has submitted the proposed regulations to the Legislature and it is our understanding that the regulations will be the subject of up-coming hearings.

Until the final regulations are adopted and included in the California Administrative Code, construction of the proposed modifications should be held in abeyance. This will assure that the modifications will comply with the regulations

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY —Continued

ultimately adopted in the Administrative Code. We, therefore, recommend that Budget Bill language be adopted to require the State Public Works Board to defer action on allocation of any construction funds for this work until the OSA regulations have been adopted. We also recommend that in order to allow the board to monitor the allocation of these funds—the Budget Bill include a schedule which delineates the amounts budgeted for each of these hospitals—$27,225 for Atascadero and $99,300 for Metropolitan State Hospital.

Minor Capital Outlay

The Department of Mental Health's minor capital outlay request under Item 444-301-036(c) includes five projects totaling $153,800. Table 2 summarizes the budget request and our recommendations for each project.

Table 2
Department of Mental Health
Minor Capital Outlay
1981-82

Project	*Location*	*Budget Request*	*Analyst's Proposal*
Repair and remodel paint booth	Atascadero	$69,000	0
Fire extinguishing system for computer	Atascadero	24,750	0
Modify elevator for earthquake safety	Atascadero	1,850	$17,400
Modify elevator for earthquake safety	Metropolitan	38,200	pending
Security screen, drug detoxification ward	Metropolitan	20,000	20,000
Totals		$153,800	$37,400

Minor Capital Outlay—Recommended Reduction

We recommend that minor capital outlay be reduced by $93,750 by deleting two unjustified projects.

The budget proposes $69,000 to upgrade and expand the paint spray area at Atascadero State Hospital maintenance facility. The project would remodel the paint spray booth, replace light fixtures, modify air supply and expand the area by approximately 1,000 square foot.

Our analysis indicates that there is a need to provide an adequate safe work area for this activity. The proposed expansion, however, is not justified. The department can and should utilize available maintenance and/or special repair funds to correct deficiencies in this area on a priority basis. We, therefore, recommend deletion of the proposed minor capital outlay funds of $69,000.

The budget includes $24,750 to install a fire extinguisher system for the computer area at Atascadero State Hospital. The department indicates that the State Administrative Manual mandates that computer systems be protected by a "halon gas" fire suppression system.

Our review of the State Administrative Manual (SAM Section 4845.61) indicates that the requirement for halon gas systems relates to major computer center installations and not to remote job entry or small computer terminal rooms such as exist at this hospital. The SAM requires that in such installations, the department is to prepare a "risk analysis" to determine the appropriate means of fire protection to be provided. We have not received any information to indicate that the department has prepared an analysis, and we see no basis for increasing the level of fire protection beyond that normally provided in this type of facility. We, therefore, recommend deletion of the $24,750 proposed for this project.

Minor Capital Outlay—Recommend Augmentation

We recommend minor capital outlay be increased by $15,550 to provide adequate funds for earthquake safety modifications to the elevators at Atascadero State Hospital.

The budget includes $1,850 to modify existing elevators at Atascadero State Hospital to meet earthquake safety requirements. A consulting engineer has evaluated the two elevators at this hospital to determine the exact modifications needed to bring the elevators into compliance with the safety code. Based on the engineer's report, the modifications can be completed at a cost of $17,400. The amount included in the budget for project work, $1,850 would not provide sufficient funds to complete needed work. We, therefore, recommend that the budget be augmented by $15,550 to provide construction funds for this work.

Minor Capital Outlay—Recommendation Withheld

We withhold recommendation on $38,200 proposed for modifying elevators at Metropolitan State Hospital to meet earthquake safety code reuirements.

The budget includes $38,200 to modify elevators at Metropolitan State Hospital to meet safety code requirements. The request is based on an estimate prepared by hospital staff in December 1979.

These elevators have not been evaluated by an engineer, as the elevators at Atascadero State Hospital have been. Consequently, we have no basis on which to determine whether the proposed funds will be adequate to complete the needed modifications. We recommend that prior to budget hearings, the department provide an evaluation of these elevators prepared by a professional engineer. Pending submission of this evaluation, we withhold recommendation on the proposed funds.

Minor Capital Outlay—Security Screens

We recommend approval.

The department proposes $20,000 to install heavy security-type screens on one unit at Metropolitan State Hospital. The department indicates that this unit is used as the drug detoxification unit at this hospital. The screens are needed to maintain security on this ward, and we recommend approval of the requested funds.

Health and Welfare Agency

DEPARTMENT OF MENTAL HEALTH—REAPPROPRIATION

Item 444-490 from the General Fund — Budget p. HW 123

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
444-490—Reappropriation, Items 302(c) and (f), Budget Act of 1980		General	not to exceed $4,600,000

ANALYSIS AND RECOMMENDATIONS

We recommend disapproval.

The budget, as proposed, provides that the unspent balance of 1980–81 local mental health funds be reappropriated for use in 1981–82 in an amount not to exceed $4,600,000.

We recommend against approval of the reappropriation because, as we discussed in our analysis of local programs on page 902, the administration has not

DEPARTMENT OF MENTAL HEALTH—REAPPROPRIATION—Continued

demonstrated the need for additional funds and has no specific plans for their expenditure. Rather than be used for unspecified expansions in these programs, the funds should revert to the surplus where they can be used to *prevent or minimize reductions* in existing state programs.

We also note that:

1. Increasing Short-Doyle/Medi-Cal restrictions on the use of federal funds by Short-Doyle programs funding may preclude the realization of savings in local programs in 1980–81.
2. Use of these funds in 1981–82 will require an increase in the General Fund appropriation for 1982–83 and thereafter to continue the programs.

Health and Welfare Agency

EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 510 from the General Fund and various funds — Budget p. HW 130

Requested 1981–82	$92,058,559
Estimated 1980–81	79,773,930
Actual 1979–80	54,199,325
Requested increase (excluding amount for salary increases) $12,284,629 (+15.4 percent)	
Total recommended reduction	$690,251

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
510-001-001—Support		General	$42,026,201
510-001-185—Support		EDD Contingent	5,651,181
510-001-588—Support		Unemployment Compensation Disability	44,381,177
Total			$92,058,559

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. ***Community Services Representatives. Reduce Item 510-001-001 by $180,000.*** Recommend deletion of eight representatives because representatives are not being used to meet service center needs. 914
2. ***State Office of Economic Opportunity. Reduce Item 510-001-001 by $510,251.*** Recommend deletion of General Fund support proposed to compensate for lost federal funds because (1) amount is overbudgeted, and (2) office has not been able to specify how the funds would be used. 914
3. Low Income Energy. Recommend Department of Finance advise the fiscal subcommittees on the proposed 1981–82 administrative program, including specific changes which will be made to operate the program within budgeted funds. 915

GENERAL PROGRAM STATEMENT

The Employment Development Department (EDD) is responsible for (1) providing a labor exchange mechanism for job seekers, and employers, (2) helping welfare recipients and other disadvantaged persons to become self-sufficient through job training and employment, (3) administering the claim-payment phase of the Unemployment Insurance (UI) and Disability Insurance (DI) programs, and (4) administering the tax collection and accounting functions under the DI, UI and Personal Income Tax withholding (PIT) programs.

The department acts under the authority of the federal Wagner-Peyser Act, the Comprehensive Employment and Training Act of 1973, the Social Security Act, and the Community Services Act of 1974. In addition, the department operates under the State Employment Act of 1973 and related state statutes and administrative codes. Departmental functions are carried out through four programs: (1) Employment and Employment-Related Services, (2) Tax Collection and Benefit Payments, (3) State Office of Economic Opportunity, and (4) General Administration.

Employment and Employment-Related Services

The employment and employment-related services program provides comprehensive statewide and local manpower planning, places job-ready individuals in suitable jobs, provides names of qualified job applicants to potential employers, and assists potentially employable individuals to become job ready.

Tax Collections and Benefit Payments

The tax collections and benefit payments program collects employer and employee contributions made to the Unemployment and Disability Insurance Funds, and pays unemployment and disability insurance benefits. This program also collects and refunds the personal income tax withheld from workers' wages.

State Office of Economic Opportunity

The State Office of Economic Opportunity (SOEO) provides the link between federal programs which provide financial aid to low-income persons and local agencies which provide services to this target group. The SOEO assists low-income persons through special direct service projects in such areas as energy conservation and housing. In addition, it provides training and technical assistance to local and anti-poverty agencies.

General Administration

This program provides executive direction, fiscal and personnel management, automatic data processing, management analysis, public information and other support services.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures totaling $92,058,559 from various state funds for support of the Employment Development Department (EDD) in 1981–82. This is an increase of $12,284,629, or 15.4 percent, over estimated current-year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year. The increase consists of (1) a $3.5 million increase in costs for administering the disability insurance program (payable from the Unemployment Compensation Disability (DI) Fund), (2) a General Fund increase of $8.6 million primarily related to new statutory requirements, and (3) a $228,642 increase in state support from the EDD Contingent Fund.

The budget proposes an appropriation of $42,026,201 from the General Fund for 1981–82, which is a net increase of $8,552,172, or 25.5 percent, over estimated

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

current-year expenditures. The net increase consists of $15,313,729 in increased expenditures and $6,761,557 in offsetting savings. Budget year increases consist of (a) $13,295,961 appropriated to EDD, rather than the Franchise Tax Board, for the collection of personal income taxes pursuant to Chapter 1007, Statutes of 1980, (b) $808,364 to implement the first phase of the Employment Preparation Program pursuant to Chapter 918, Statutes of 1980, (c) $510,251 to replace a federal funds loss by the State Office of Economic Opportunity, (d) $10,810 to reimburse the Office of Administrative Law, and (e) $688,343 for operating expense and equipment adjustments. These increases are offset by the following decreases: (a) a baseline adjustment of $6,723,839 for the California Worksite Education and Training Act (proposed 1981–82 expenditures of $7,000,000 are $6,723,839 below current year expenditures of $13,695,340) and (b) $37,718 eliminated for salary adjustments. Table 1 details the proposed General Fund adjustments for the budget year.

Table 1
Employment Development Department Support Budget
Proposed General Fund Adjustments
1981–82

	Adjustment	*Total*
1980–81 Current-Year Expenditures		$33,474,029
1. Adjustments for Existing Programs		
A. Increase in Existing Personnel Costs		
1. Salaries and wages for California Jobs Tax Credit (CJTC) ($−46,899) and California Worksite Education and Training Act (CWETA) ($15,817)	−$31,082	
2. Merit salary adjustments	168,444	
3. OASDI	25,163	
4. Retirement	25,631	
5. Workers' compensation	−227	
6. Unemployment compensation	−1,947	
7. Health benefits	−4,321	
8. Nonindustrial disability insurance	−141	
Subtotal		$181,520
B. Operating Expenses and Equipment		
1. Support-related	$196,492	
2. Client-related		
a. Work Incentive and related employment programs	55,293	
b. CWETA	−6,723,839	
c. Youth Employment and Development	217,320	
Subtotal		−$6,254,734
2. Program Change Proposals for 1981–82		
A. Employment and Employment-Related Services		
1. Employment Preparation Program (EPP)	$808,364	
B. Tax Collections and Benefit Payments		
1. Personal Income Tax (PIT)	13,295,961	
2. Office of Administrative Law (OAL)	10,810	
C. State Office of Economic Opportunity	510,251	
Subtotal Budget Change Proposals		$14,625,386
3. Total Budget Change Proposed for 1981–82		$8,552,172
4. Total General Fund		$42,026,201

Table 2 details the department's funding and expenditures in the current and budget years. Total expenditures of $3,011,379,490 are proposed in 1981–82, which is $126,801,479, or 4.0 percent, below estimated current year expenditures. This decrease is largely attributable to reduced expenditures for unemployment benefits which the administration expects to result from improved economic conditions. The decrease also reflects a reduction in federal support for the public service employment element.

Position Adjustments

Table 2 also shows that personal services are proposed to decrease by 511.7 personnel-years in the budget year. This decrease is attributable to (1) the elimination of 402.1 personnel-years in the Tax Collection and Benefit Payments program due to workload reductions, (2) the reduction of 65.1 personnel-years in the Employment and Employment-Related Services program attributable to federal funding reductions, and (3) the deletion of 44.5 personnel-years due to workload reductions in the State Office of Economic Opportunity. Based on our review, we recommend approval of the proposed position reductions.

Funding Problems

Currently, the Employment Development Department is experiencing a funding shortage in 1980–81 due to (1) federal reductions in the unemployment insurance and the employment services programs and (2) inflationary increases which exceed the 5 percent adjustment provided by the federal government. The department is absorbing the shortage by (1) placing a freeze on hiring at central administration, (2) reducing overall staffing levels, (3) withholding all plans for new office space, and (4) reconsidering leases which have not been consummated.

The budget assumes that there will be adequate funding in 1981–82 to support the proposed level of service. Our analysis indicates, however, that current year funding problems are likely to persist into the budget year.

Disability Insurance Program

California's State Disability Insurance (SDI) program was established in 1946. Its primary objective is to reduce economic hardship by providing benefit payments to workers who cannot work due to a nonemployment-related illness or injury. To be eligible, a claimant must have (1) earned at least $300 during a base year and (2) worked with an employer participating in the program. Benefits are funded primarily by *worker* contributions. Employees may be covered by disability insurance under either the state plan or a voluntary plan. Voluntary plans are sponsored by employers and approved by the Director of EDD.

Currently, an eligible claimant can receive a weekly benefit amount from $30 to $154, based on wages earned during a 12-month period. The maximum amount payable during a period of disability is (a) 39 times the weekly benefit amount, or (b) three-fourths the claimant's base period wage, whichever is less.

The budget proposes a total expenditure for the DI program of $678,469,606. This is an increase of $7,598,815, or 1.1 percent, over estimated current year expenditures. Two significant legislative changes account for the major portion of the SDI increase.

1. ***Chapter 1308, Statutes of 1980 (AB 2195),*** provides for a disability insurance tax rate formula that will vary with the level of the Unemployment Compensation Disability (DI) Fund.

2. ***Chapter 1040, Statutes of 1980 (SB 1857),*** requires the seven-day waiting period for receiving disability benefits to be waived if an individual has been unemployed and disabled for more than 21 days, rather than 49 days as under prior law, during the disability period; it also repeals a provision of law which reduced a claimant's disability benefit by the amount of other benefits received.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 2
Employment Development Department
Budget Summary

Funding	Estimated 1980-81	Proposed 1981-82	Change Amount	Change Percentage
General Fund	$33,474,029	$42,026,201	$8,552,172	25.5%
Unemployment Compensation Disability Insurance	670,439,362	678,038,177	7,598,815	1.1
EDD Contingent Fund	5,422,539	5,651,181	228,642	4.2
School Employees Fund	22,131,795	23,587,902	1,456,107	6.6
Local Public Entity Employees Fund	2,980,838	3,207,183	226,345	7.6
Federal Funds	2,348,953,245	2,217,951,858	−131,001,387	−5.6
Federal Trust Fund	(201,725,649)	(187,840,642)	(−13,885,007)	−6.9
Unemployment Fund—Federal	(1,571,431,939)	(1,463,268,479)	(−108,163,460)	−6.9
Unemployment Administration Fund—Federal	(575,795,657)	(566,842,737)	(−8,952,920)	−1.6
Reimbursements	54,779,161	40,916,988	−13,862,173	−25.3
Totals	$3,138,180,969	$3,011,379,490	−$126,801,479	−4.0%
Programs/Components				
10. Employment and Employment Related Services	$329,339,877	$321,522,437	−$7,817,440	−2.4%
Personnel-Years	5,877.9	5,812.8	−65.1	−1.1
General Employment	85,905,847	90,461,316	4,555,469	5.3
Special Employment	105,338,594	99,688,991	−5,649,603	−5.4
Governor's Special CETA Grants	37,612,132	39,492,738	1,880,606	5.0
Balance of State	55,184,980	58,915,721	3,730,741	6.8
Contracted Prime Sponsor Serv	22,129,820	22,612,858	483,038	2.2
Public Service Employment	23,168,504	10,350,813	−12,817,691	−55.3
Administrative Distribution	(12,396,738)	(12,568,910)	(172,172)	(1.4)
20. Tax Collection and Benefit Payments	$2,714,928,034	$2,599,382,296	−$115,545,738	−4.3
Personnel-Years	8,568.9	8,166.8	−402.1	−4.7
Unemployment Insurance	2,029,719,194	1,905,218,717	−124,500,477	−6.1
Disability Insurance	670,860,174	678,469,606	7,609,432	1.1
Personal Income Tax	12,027,036	13,295,961	1,268,925	10.6
Former Inmates	2,321,630	2,398,012	76,382	3.3
Administrative Distribution	(20,262,319)	(20,070,603)	(−191,716)	(−.9)
30. General Administration	$1,834,729	$1,980,456	$145,727	7.9
Personnel-Years	5.2	5.2	-	-
40. Office of Economic Opportunity	$92,078,329	$88,494,301	−$3,584,028	−3.9
Personnel-Years	160.1	115.6	−44.5	−27.8
State Agency Assistance	1,403,569	1,281,950	−121,619	−8.7
Community Services	1,101,359	1,153,084	51,725	4.7
Energy Conservation and Weatherization	89,573,401	86,059,267	−3,514,134	−3.9
Totals	$3,138,180,969	$3,011,379,490	−$126,801,479	−4.0%
Personnel-Years	14,612.1	14,100.4	−511.7	−3.5%

Unemployment Insurance Program

The Unemployment Insurance (UI) program operates under federal and state laws. Its primary objective is to reduce economic hardship by providing benefit payments to eligible workers who, through no fault of their own, are temporarily unemployed. Eligibility for benefit payments is gained by working for an employer covered by the UI program. Unemployment benefits and the cost of administration are funded by employer contributions. Normally, eligible participants can claim UI benefits for a period up to 26 weeks.

The budget proposes UI expenditures (support and benefits) of $1,905,218,717 in 1981–82. This is $124,500,477, or 6.1 percent, less than estimated current year expenditures. EDD advises that most of this decrease is due to an anticipated reduction in benefits payments. This reduction is consistent with the Department of Finance's current estimate of employment trends.

Revenues to the UI Fund are generated by employer payroll taxes. The fund operates on an insurance principle, building reserves in good times for use during periods of high unemployment. Taxes vary according to the size of the fund's reserves and the experience of the individual employers in terms of the benefits paid to former employees. Based on the current fund balance and unemployment rate trends, we anticipate that the fund balance will be adequate to cover UI costs in 1981–82.

Employment Preparation Program

We recommend approval.

The Employment Preparation Program (EPP) was created by Chapter 918, Statutes of 1980 (SB 1476). The goal of this program is to prevent and reduce welfare dependency by promoting the employment of applicants for and recipients of Aid to Families with Dependent Children (AFDC). To achieve this goal, EPP consists of two separate components: employment services and cash assistance payments.

The goal of the employment services component is to assist AFDC applicants and recipients find jobs as quickly as possible through immediate job services. EPP will (1) provide self-help job search skills before aid is granted, (2) assist in direct and self placement in unsubsidized employment, and (3) develop linkages with other employment and training agencies.

The payment component will be implemented on a demonstration basis, beginning July 1, 1982, in one Work Incentive (WIN) county and one non-WIN county. It is designed to test the feasibility of separating AFDC payments to those AFDC applicants and recipients who are required to register for work with EDD, from the AFDC payments made to individuals who are not required to register for work with EDD.

Chapter 918 provides for various evaluations of the program. The Employment Development Department is required to submit an annual report to the Legislative Analyst by February of each year detailing the performance and status of EPP. The Legislative Analyst shall critique the report and submit his findings to the Legislature by April 1 of each year. Commencing with fiscal year 1982–83, the Governor's Budget shall report net expenditure reductions reasonably attributable to the operation of EPP. Finally, the Auditor General is required to analyze the cash assistance payments component of the program on a continuing basis, and to submit his evaluation of program results by December 1, 1984.

The budget proposes expenditures of $808,364 for EPP in 1981–82. These funds will be used by EDD to (1) implement the employment services component and (2) evaluate program performance. The department estimates approximately 1,493 clients will be served annually, at an average cost of $541 per client.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Community Services Representatives

We recommend deletion of $180,000 from the General Fund (Item 510-001-001) proposed to continue a contract for eight community services representatives because these representatives are not being used to meet service center needs.

Background. The Employment Development Department (EDD) administers, as part of its Employment and Employment Related Services program, eight service centers in economically depressed areas of the state. The service centers are designed to provide intensive employment services to individuals who have at least one barrier to employment.

Since May 1, 1969, there has been an annual contract between EDD and the Governor's Office for community services representatives. The stated purpose of the contracts has been to maintain liaison between the community, the Governor's Office and the service center program. The representatives are required, per the interagency agreement, to advise the service center managers of community problems and to assist in developing possible solutions to those problems. The current contract is for eight positions and $180,000. The budget proposes continuation of the contract in 1981–82.

Representatives Do Not Meet Needs of Service Centers. A number of studies have been undertaken to validate the usefulness of the community service representatives to the service center program. In December 1972, for example, EDD completed a report which found that neither the service center managers nor the community representatives were able to give clear and consistent explanations of the purpose or the duties of the representatives.

A study of the service center program, completed in February 1974, indicated that there was no substantial change in the situation as of that date. The report states, "if these representatives have ever advised HRD (now EDD) of community problems and possible solutions, it has been on an informal and verbal basis."

In summarizing the service center plans being submitted as of January 1, 1976, the department stated that, "there is little contact between service center staff and the community representatives (Governor's Office liaisons); therefore, it's difficult to describe their role in the service center program."

In November 1980, we contacted the eight service centers and inquired as to the current role of the community services representatives. *Of the eight center managers contacted, only two were aware that community representatives were still in existence.* None of the managers reported receiving reports from the representatives on community problems and possible solutions.

In addition, we requested copies of reports concerning the activities of the representatives which the interagency agreement requires to be submitted on a quarterly basis to the Director of EDD. The department advised us that no reports were available for the past year.

Our analysis clearly indicates that these positions are not being used to enhance the service center program and should therefore not be supported with service center funds. We therefore recommend deletion of $180,000 from the General Fund (Item 510-001-001) proposed to support the community services representatives in the budget year.

Funding Shift Not Justified

We recommend deletion of $510,251 from the General Fund (Item 510-001-001) to replace federal funds lost by the State Office of Economic Opportunity because the office has been unable to justify the proposed funding shift.

The California State Office of Economic Opportunity (SOEO) provides technical services to community action agencies through state agency assistance and community services programs. In addition, SOEO administers energy conservation and weatherization projects, including the Low Income Energy Assistance Program (LIEAP). Historically, SOEO's administrative function, or core staff, has been supported primarily with federal funds. Currently, the core staff is funded on a 43 percent federal/57 percent state matching basis.

The administration is proposing a General Fund increase of $525,879 in the budget year primarily to compensate for an anticipated loss in federal funds ($510,251 to replace federal funds and $15,628 in baseline salary and price adjustments.) This will result in a revised 6 percent federal/94 percent state cost-sharing ratio.

Table 3 summarizes SOEO's proposed funding for the budget year.

Table 3
State Office of Economic Opportunity
Core Staff Budget
1980–81 and 1981–82

Funding Source	*1980–81*	*1981–82*	*Change*
General Fund	$467,614	$993,493	$525,879 [a]
Federal funds	346,738	60,000	−286,738
Totals	$814,352	$1,053,493	$239,141
Personnel-years	26.8	30.6	3.8

[a] Includes baseline adjustments of $15,628.

Our analysis indicates that:

1. ***The amount of additional General Fund support requested exceeds the maximum potential loss of federal funds by $223,513.*** As noted above, SOEO is requesting $510,251 to compensate for the loss of federal funds. The office, however, is only receiving $346,746 in the current year. Of this amount, it expects to receive $60,000 in the budget year. Thus, SOEO is requesting $223,513 more from the General Fund ($510,251–$286,738) than would be required to replace the anticipated loss in federal funds.

2. ***SOEO has not justified the need for additional positions on a workload basis.*** The office requests funds to support 3.8 more positions in the core staff budget in 1981–82 than are being supported in the current year. SOEO advises us that these positions are supported in 1980–81 by program funds which will no longer be available in the budget year. In the absence of increased core staff workload in 1981–82, however, the proposed staffing transfer does not appear justified.

3. ***SOEO has been unable to specify what services the office would no longer be able to provide if federal funds are not replaced.*** For these reasons, we have no analytical basis for recommending that the General Fund replace federal funds anticipated to be lost in the budget year. Accordingly, we recommend deletion of $510,251 from Item 510-001-001 proposed to replace federal funds support. Adoption of this recommendation would leave SOEO with adequate funds for merit salary adjustments, as well as price and benefit increases, for its state-supported core staff.

Low-Income Energy Assistance Program (LIEAP)

We recommend that the Department of Finance advise the fiscal subcommittees, during budget hearings, on the proposed 1981–82 administrative and cash grant expenditures for the Low-Income Energy Assistance Program, including specific changes which will be made to operate the program within budgeted funds.

Background. In a letter dated September 30, 1980, the Director of Finance requested a waiver of the 30-day waiting period, established by Section 28 of the

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

1980 Budget Act, so that the Employment Development Department could spend $84,877,620 ($84,087,504 in federal funds and $790,116 from the General Fund) for the Low-Income Energy Assistance program (LIEAP). The LIEAP was established by the Crude Oil Windfall Profit Tax Act of 1980 (PL 96-223) to provide cash grants to low income individuals for the purpose of offsetting the rising cost of energy. The State Office of Economic Opportunity has been designated as the state administering agency.

Current Year Activity. EDD advises us that it expects to spend $81,672,663 ($80,882,547 in federal funds and $790,116 from the General Fund) for the LIEAP program during the current year. Of this amount, $74,816,356 is for cash grants to eligible households and $6,856,307 is for state administration.

Three types of households are eligible for LIEAP payments: (1) those which have incomes less than or equal to the Bureau of Labor Statistics Lower Livings Standards, referred to as noncategorical low income recipients, (2) recipients of Aid to Families with Dependent Children (AFDC), and (3) recipients of Supplemental Security Income (SSI)

The program is being implemented in two phases. In phase one an automatic minimum payment was made directly to SSI and AFDC recipients in early January. In the second phase, an adjusted final payment will be mailed between March 15 and March 31 1981, and will be based upon the return of applications for assistance sent to SSI and AFDC recipients with the first payment. Noncategorical low-income households will receive one payment in March. Table 4 summarizes the number of households expected to be served by LIEAP.

Table 4
Estimated Households Participating in LIEAP
1980–81

Category of Beneficiary	*Household Participation*
SSI	370,000
AFDC	476,520
Noncategorical Low Income	499,000
Total	1,345,520

Budget Year Activity. The budget assumes that the LIEAP program will continue to receive $80,882,547 from the federal government in 1981–82. Current federal regulations allow states to utilize 7.5 percent of their federal allocations to fund administrative costs. Any administrative requirements in excess of this amount must be supported 100 percent by the state General Fund.

The budget assumes that LIEAP will be 100 percent federally funded in 1981–82. Because current year administrative costs exceed the 7.5 percent federal allotment by $790,116, it appears that the administration is assuming that administrative costs will be reduced by approximately 11.5 percent in the budget year.

So that the Legislature can have an opportunity to review the proposed service levels for the LIEAP program in the budget year, we recommend that the Department of Finance advise the fiscal subcommittees during budget hearings, on the proposed 1981–82 administrative and cash grant expenditures for LIEAP, including the specific changes which will be made to enable the program to operate within the budgeted amount.

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY

Item 510-301 from the Employment Development Contingent Fund — Budget p. HW 149

Requested 1981–82	$8,921,706
Recommended approval	6,377,530
Recommended reduction	2,544,176

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Office building—Monterey. Withhold recommendation, pending receipt of additional information. 918
2. ***Parking Lot—Oroville. Reduce by $131,500.*** Recommend deletion of construction funds because a site has not been acquired. 919
3. ***Building Alterations—Redding. Reduce by $199,500.*** Recommend reduction of construction costs and project scope to eliminate unnecessary general, mechanical and electrical work. 920
4. ***Building Alterations—Bakersfield. Reduce by $5,390.*** Recommend reduction of project scope and related request for planning and working drawing funds, due to excessive project scope and cost. 920
5. ***Parking Lot—Bakersfield. Reduce by $321,606.*** Recommend deletion of site acquisition and construction funds because a site has not been acquired. 921
6. ***Modular Building Addition—Oakdale. Reduce by $78,440.*** Recommend reduction of planning, working drawing and construction funds, due to excessive project scope and cost. 922
7. ***Office Expansion and Modification—El Centro. Reduce by $209,700.*** Recommend reduction of request for working drawing and construction funds, due to excessive project scope and cost. 922
8. ***Building Addition—San Jose. Reduce by $177,960.*** Recommend reduction of request for working drawing and construction funds, due to excessive project scope and cost. 923
9. ***Building Addition—Colusa. Reduce by $25,300.*** Recommend reduction of request for planning, working drawings and construction funds, due to unjustified project scope and excessive cost. 924
10. ***Building Alterations—Chico. Reduce by $182,680.*** Recommend reduction of request for working drawings and construction funds to reflect reduction of project scope and deletion of excessive project costs. 924
11. ***New Area Office—Gilroy. Reduce by $509,500.*** Recommend deletion of project, due to lack of need. 925
12. ***Building Alterations—Los Angeles. Reduce by $439,600.*** Recommend deletion of project, due to lack of need. 925
13. ***Parking Lots—Fullerton. Reduce by $200,000.*** Recommend deletion of project due to lack of need and existance of more economical alternatives. 926
14. ***New Area Office—Watsonville. Reduce by $63,000.*** Recommend deletion of request for working drawings, because a site has not been acquired. 926

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY—Continued

ANALYSIS AND RECOMMENDATIONS

Space Standards

The Employment Development Department bases requests for capital outlay projects and leased facilities upon departmental space standards. Recently, the department has liberalized these standards, which would require the state to incur significant additional costs in meeting EDD's space needs. Table 1 shows the effects of the new standards on space requirements in connection with three recently proposed leases.

These standards are not mandated by the federal government. In fact, the department's revised standards appear to be in excess of *suggested* federal space guidelines.

Our inspection of various field offices has revealed that many of the offices which are alleged to have deficient office space based on the revised standards, do in fact have adequate space. Additional information and review of these standards and their cost implications is needed.

The increased standards have not been reviewed or approved by the Departments of Finance or General Services. Because of the significant cost implications of these standards they should be reviewed for appropriateness and compliance with federal and state requirements by the two departments.

We intend to submit to the fiscal subcommittees a supplemental analysis of this matter prior to budget hearings.

In our analysis of the department's individual budget requests, we have used the new space standards to evaluate project proposals where the department asserts that space problems exist with the present facility. In all but one of these cases (Gilroy), additional space would be justified by the use of either the new standard or prior standards. After we have completed our analysis of the new standards, however, we may recommend additional reductions in the department's proposed capital outlay program. Any such recommendation will be provided prior to budget hearings along with our analysis of the space standards.

Table 1
Employment Development Department—Capital Outlay
Effects of New Space Standards on Lease Costs

City *Location of Offices Vacated*	*Los Angeles:* *Indiana St.* *North Broadway*	*Delano:* *Main* *Street*	*Canoga Park:* *Remmet Ave.* *Sherman Way*
Additional space required by new space standards	2,927	2,611	2,911
Additional yearly cost	$46,832	$26,110	$43,665
Additional cost over total lease term	$702,480	$391,650	$430,650

Office Building—Monterey

We withhold recommendation on Item 510-301-185 (a), construction of a new office building in Monterey pending submission of appropriate justification.

The Employment Development Department (EDD) has requested an appropriation of $1,897,600 from the Employment Development Contingent Fund for construction of a new office building in Monterey. The project cost is anticipated to be $2,328,600, which includes $301,000 for site acquisition and an estimated building cost of $1,359,000—$85 per gross square foot. Previous Budget Acts appropriated $513,971 for site acquisition, preliminary planning and working drawings for this project. Future costs of $15,000 for annual operation and maintenance are anticipated.

The proposed building will contain 15,940 gross square feet, and will include a parking area sufficient for 120 vehicles. This office will provide adequate space for 65 employees and will meet the needs of the department through 1995. It will house a full array of departmental programs, including Unemployment Insurance, a job placement service, an Unemployment Insurance Appeals Board, and an Unemployment Tax Board. The proposed building design includes features such as solar hot water heating, and thin-set terrazzo flooring in the public areas.

The new building will enable the department to vacate three presently leased facilities, which will result in a savings to the state of $86,000 per year. This building is needed in order to adequately service the needs of the department's clients in this area.

Scope Problems. The building, as presently designed, is too large and too expensive. The original request for land acquisition funds was based upon a need for a 14,250 gross square foot building which would house 65 employees. The present design calls for 15,940 square feet (for 65 employees), and a scope change has been recently approved by the Department of Finance which adds an additional 900 square feet—resulting in a total area of 16,840 gross square feet.

Also the building cost of $85 per gross square foot is too expensive for a building of this type. Features such as plywood paneling in public areas, air conditioning and solar hot water systems (both of which were denied by the Legislature last year), and excessive landscaping, have helped raise the project cost. The high cost has also resulted from the budget request being based on a 16,300 gross square foot building rather than on the building requested by the department (15,940 gross square feet).

We conclude, therefore, that the budget request is overstated because it is based on a building larger than the one actually requested, and because it contains unnecessary features. These aspects should be addressed during the preliminary planning phase which is currently underway.

Because the budget request lacks adequate documentation, the project scope is inconsistent with previous department proposals, and preliminary plans are still in progress and not scheduled for completion until March 1981, we withhold recommendation at this time. We will submit a supplementary analysis after we receive preliminary plans and a revised budget estimate which is consistent with the previously approved project scope.

Parking Lot—Oroville

We recommend deletion of Item 510-301-185(1), construction of a parking lot at Oroville, because the request is premature, for a savings of $131,500.

The budget requests $131,500 from the Employment Development Contingent Fund for construction of a new parking lot at Oroville. Previous Budget Acts appropriated $80,000 for site acquisition and $10,100 for planning/working drawings, but these funds have not been spent.

The proposed parking lot is to be adjacent to an existing department-owned parking area, and will provide sufficient space to accommodate 50 vehicles. The property is presently unimproved and the department states it is the only such property adjacent to the existing office facility. The need to acquire additional property is apparent.

The Real Estate Services Division has not made progress in acquiring this site and has advised us that an order of immediate possession (condemnation) may be necessary for its acquisition. Because of the uncertainty regarding the acquisition of this site, the preliminary plans have not been started. Thus, the estimated construction cost is not based on adequate information. In view of the circum-

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY—Continued

stances, the request for construction money is premature, and we recommend that the funds be deleted.

Building Alteration—Redding

We recommend Items 510-301-185(q), (r), and (s), preliminary plans, working drawings and construction of building alterations, be reduced by $10,400, $14,200, and $174,950, respectively because of the excessive scope of the project.

The budget proposes the appropriation of $16,400, $40,150, and $865,650 from the Employment Development Contingent Fund for preliminary plans, working drawings, and construction of alterations, respectively, for the office facility in Redding. Funds totaling $13,200 for preliminary plans have previously been approved for this project. Although, a detailed cost estimate is available, the State Architects' Office indicates that preliminary plans have not been scheduled.

The project proposes the remodeling of 12,280 net square feet of existing office space, and it includes the construction of a 300 square foot mechanical room, new flooring and light fixtures, and extensive construction of new partitions and resultant framing. Also, most of the ceiling surfaces will be replaced with the installation of new insulation.

The Redding office building was constructed in 1952 and expanded in 1962. According to the department, the building is in good condition, structurally sound, located in a stable area, and has adequate off-street parking. However, the building no longer meets the departments' program needs. The department states that upon conclusion of this work, the renovated facility will meet the needs of the department through 1995.

We recommend approval of this project. The original building is 29 years old and the building addition is 19 years old. The proposed renovation would allow the continued use of this facility for another 14 years, thereby saving the expense of constructing a new facility in this area during that time period.

However, we recommend Items 510-301-185(q), (r), and (s) be reduced by $10,400, $14,200, and $174,950, respectively, because the proposed scope of this project is excessive. This project has a total cost of $935,400 ($60 per gross square foot), which is too expensive. This is due to the proposal's failure to take advantage of the existing layout of the partitions. It calls for an excessive amount of replacement and movement of partitions—only a few feet, in some cases. This, in turn, necessitates the construction of new mechanical and electrical renovations to complement the new layout. The high cost has also been caused by the unnecessary replacement of light fixtures, new flooring, and the inclusion of unnecessary features such as carpeting, thin-set terrazzo tiles in the public area, and solar hot water heating. Costs for a project of this sort should not exceed $50 per gross square foot. Accordingly, we recommend that Item 510-301-185(q), (r), and (s) be reduced $10,400, $14,200 and $174,950, respectively, to reflect a reduced project scope.

Building Alterations—Bakersfield

We recommend reductions in Items 510-301-185(c) and (d), preliminary plans and working drawings, of $2,490 and $2,900, respectively because the proposed project is too costly.

These items include appropriations of $23,500 and $39,100 for preliminary plans and working drawings to renovate the EDD office building in Bakersfield. This building is owned by the department and the renovations will bring the facility up to current codes, including handicapped access requirements. The project will provide energy conservation features, new restrooms, air conditioning improvements, and change the office layout to accommodate program requirements.

Total cost of the renovation project is anticipated to be $975,400, with a building cost of $771,000 ($41 per square foot). Construction funds in the amount of $907,800 will be requested in 1982–83.

We recommend approval of this project since it will forestall the building of another office facility for at least 20 years. This project however is too costly, has unnecessary design features, and involves an office area arrangement that is inconsistent with standard departmental space requirements. Specifically:

- Contingency costs, and architectural and engineering costs, have been budgeted at 26 percent of the total contract cost, whereas 20 percent should be adequate for this type of project and is the normal state cost for this portion of the work.
- Unnecessary and expensive features, such as solar hot water heating, thin-set terrazzo flooring, and carpet tiles, have been included.
- Office area space is not arranged in accordance with the department's standard plans. The public waiting area is 79 percent of standard, and the work area is 74 percent of standard.

We therefore recomend that the project be redesigned in the preliminary planning stage to conform to standard departmental space requirements. We also recommend that the unnecessary features be eliminated. Accordingly, we recommend a reduction of $2,490 and $2,900 in the preliminary planning and working drawing amounts to reflect the modified project scope.

Parking Lot—Bakersfield

We recommend deletion of Item 510-301-185(b), parking lot site acquisition and improvements, because a site has not been selected and the request lacks sufficient justification, for a savings of $321,606.

The budget proposes an appropriation of $321,606 for site acquisition and improvements for a new parking lot at Bakersfield. The proposed lot is adjacent to a department-owned building which has a serious parking problem. The department has received many complaints from surrounding businesses, residents and owners of vacant lots, that Employment Development Department clients are encroaching on their property.

The building contains 19,900 square feet and has 24 parking spaces. The department states that a building of this size should have 120 parking spaces for clients, handicapped individuals, and state cars.

The Legislature has previously appropriated $209,650—$91,650 in the Budget Act of 1977, Item 408(i), and $118,000 in the Budget Act of 1978, Item 470(d). These funds have not been released by the Public Works Board because the desired parcels could not be acquired.

As of January 1981, a site still has not been acquired for this project. Furthermore, the department has not submitted justification as to why the funds already available for site acquisition are not sufficient, and why an additional appropriation is needed. Due to the inability of the department to acquire a site over the past three years, and the absence of any justification for the additional appropriation, the requested appropriation is premature. Therefore, we recommend that the funds be deleted.

Building Renovation—Fresno

We withhold recommendation on Items 510-301-185(e) and (f), preliminary plans and working drawings for alteration of an existing office building, pending receipt of additional information.

These items request appropriations of $32,200 and $45,300 for preliminary plans and working drawings, respectively, for the renovation of an office building in Fresno. The proposed alterations will include new restrooms to meet handicapped

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY—Continued

standards, air conditioning replacement, a new roof, energy conservation features, new floor coverings, space reconfiguration, and added storage space. In addition, a hearing room will be provided for the Unemployment Insurance Appeals Board, and conference, testing, and employee rooms will also be included in the design.

The present office building is a converted supermarket which has 14,200 square feet and includes 140 parking spaces. This facility was originally constructed in 1952 and was expanded in 1964. The department states that this building is located in a stable area, is attractive, and has adequate off-street parking. The renovation would essentially make it a new building.

Total cost of this project is anticipated to be $1,134,600, with a building cost of $564,200—$40 per gross square foot. Construction funds of $1,051,100 will be requested in 1982–83.

The structural engineer assigned to this project has stated that the building was constructed to minimum specifications. This building has not been examined for possible structural problems, and an engineering evaluation may reveal problems which could have a significant impact on the project cost and/or the desirability of remaining in the building on a permanent basis. We, therefore, withhold recommendation pending receipt of an engineering report on the structural soundness of the present building.

Modular Building Addition—Oakdale

We recommend Item 510-301-185(g), preliminary plans, working drawings and construction of a modular building addition, be reduced by $78,440 because of excessive costs.

The budget requests the appropriation of $196,600 for preliminary plans, working drawings and construction of a modular building addition to the department-owned office in Oakdale. The total cost of this project is estimated to be $198,600, with a building cost of $146,300—$74 per gross square foot.

The existing facility was originally planned to house nine staff by 1981. Staffing is now 10 employees, and the number is projected to increase to 16 by 1995. The department states that the completed facility will provide adequate space.

Our analysis indicates that a space problem does exist. The present facility contains approximately 2,590 net square feet, which is 73 percent of the department's new standard office space for 10 staff. Even though we believe the department's new space standards are excessive, this percentage is sufficiently low to indicate that a space problem does exist. Discussion with Oakdale office staff also supports the claim that a space problem exists.

To remedy this situation, the department has requested a 1,500 square foot building addition. This amount of additional space is justified under the new standards. The cost estimate, however, is based on a building addition of 1,980 square feet and no justification has been provided for the additional 480 square feet. Also, the basic building cost of $74 per gross square foot is to expensive. The construction cost for buildings of this type (modular) should not exceed $56 per gross square foot. We, therefore, recommend a reduction of $78,440 to reduce the scope of the project to that proposed by the department (1,500 square feet) and to reduce the cost to $56 per gross square foot.

Office Expansion and Modification—El Centro

We recommend Items 510-301-185(h) and (i), working drawings and construction, be reduced $14,900 and $194,800, respectively, because of unnecessary project features.

The budget proposes appropriations to finance working drawings ($18,700) and construction costs ($1,186,200) for a project located in El Centro. Specifically, a 10,900 square foot building addition, and modifications to a 9,100 square foot facility, are proposed. Site work, consisting of revisions to the parking lot and construction of a new metal carport, will also be included in the project. This project will allow the consolidation of all EDD programs in the City of El Centro into one facility with adequate off-street parking. The completed facility will provide space to relieve the current overcrowded conditions at the existing facility, and provide for future growth through the year 1992.

The total project cost is anticipated to be $1,277,900, with additional costs of $31,500 annually expected for operations and maintenance expense resulting from the building expansion. Previous funding of $93,243 for preliminary plans and partial working drawings has been appropriated in prior Budget Acts. Of this amount, $34,200 has not been allocated.

Our analysis indicates that the project includes unnecessary features, such as excessive landscaping, a new carport, a solar hot water system, replacement of lights, and thin-set terrazzo flooring, which are not justified. An energy analysis for the solar system has not been provided. Our experience with these systems, however, indicates that they usually do not save enough utility costs to justify their installation. The carport is not a standard feature at any of the department field offices, and the thin-set terrazzo flooring is more costly than available alternatives.

The requested appropriations also include excessive costs related to (1) architectural/engineering services, and (2) construction contingency costs. Normally, an amount equal to 20 percent of the contract cost would provide sufficient funds for architectural/engineering services and a construction contingency. The requested appropriations, however, include architectural/engineering costs and contingency provisions equal to 22 percent of the contract cost ($233,600). In our recommended reduction we have reduced this cost by $20,880 to the normal 20 percent of construction costs.

We therefore recommend reductions of $14,900 and $194,800 in the requested working drawing and construction amounts to delete the unnecessary project features and to reduce costs.

Building Addition—San Jose

We recommend Items 510-301-185(h) and (i), working drawings and construction, be reduced by $18,660 and $159,300, respectively, because of unnecessary project features.

The budget proposes appropriations of $38,950 and $2,244,350 for working drawings and construction, respectively, for a building addition at San Jose. A partial second floor of 12,500 net square feet will be added to the existing 23,300 net square foot building which was constructed in 1968. This addition will complete the building as originally planned. The existing building will also be altered to provide handicapped accessibility and reconfigured to meet program changes.

This project will allow consolidation of services such as the Employment Service, Unemployment Insurance, WIN, Job Bank, CETA, and Disability Insurance into one building. The expansion will provide space for an additional 70 personnel.

The total project cost is estimated at $2,400,800, with the building addition cost being $1,164,800 ($93 per gross square foot) and the alteration cost being $782,500 ($34 per gross square foot). Funding of $85,200 has already been appropriated for preliminary plans and working drawings, and $8,000 has been utilized for budget schematics from blanket appropriations which were established for that purpose. The previously appropriated monies for working drawings have yet to be released by the Public Works Board. The expanded facility will require an additional $37,500 annually for maintenance and operation expenses.

Our analysis indicates that the project scope includes unnecessary features such as carpeting in the working areas, thin-set terrazzo tiles in public areas, and solar hot water heating. The installation of carpeting in this type of building is undesirable due to its short useful life, and solar hot water heating usually does not save

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY—Continued

enough cost to justify its installation. Furthermore, the requested budget appropriations are based upon a cost estimate which contains excessive architectural/engineering and construction contingency costs of $26,000. We, therefore, recommend that the working drawing and construction appropriations be reduced $18,660 and $159,300, respectively, to eliminate the unnecessary project features and unjustified costs.

Building Addition—Colusa

We recommend Item 510-301-185(n), preliminary planning, working drawings and construction of a modular building addition, be reduced by $25,300 because of excessive square footage costs.

The budget proposes an appropriation of $127,500 for construction of a modular building addition to an existing department office located at Colusa. The building addition will add 1,452 square feet to the present facility, and will be used to add additional bulk storage, more work area, and a multipurpose room.

The department states that the Colusa office was originally planned to house six staff by 1981. The current staffing is 10, and this number is projected to increase to 14 by 1995. The completed facility, as proposed, will provide adequate space to meet the needs of this office through 1995.

The total project cost is estimated to be $129,500, with a building cost of $100,300—$69 per gross square foot. Additional operating costs of $4,000 annually for operations and maintenance are anticipated.

Our analysis indicates that present space is only 62 percent of department standards. The additional office space proposed would increase the area to 98 percent of the standard space for a full-functioning office. Therefore, the additional space is warranted and we recommend approval.

However, the proposed cost of this project is excessive. A facility of this type (modular) should not exceed a cost of $56 per gross square foot. Accordingly, we recommend a reduction of $25,300 to reduce the cost to this level.

Chico Building Alterations

We recommend Items 510-301-185(o) and (p), working drawings and construction of building alterations at Chico, be reduced by $15,100 and $167,580, respectively, because of unnecessary construction features.

The budget proposes appropriations of $15,100 and $391,200 for additional working drawing funds, plus construction funds, for alterations at an EDD office located at Chico. The Chico facility—constructed in 1951—would be modified to (a) provide restroom facilities accessible to the handicapped, (b) improve the heating/air/ventilation system, and (c) improve office areas. A small addition to the building would provide additional space for the Employment Tax Division, and allow cancellation of leases resulting in a monthly savings of $1,516. The proposed alterations will upgrade the building to provide adequate facilities for the projected 1992 workload requirements.

The total project cost is estimated to be $432,400, with a building cost of $314,500. The previous appropriations for preliminary plans ($4,800) and working drawings ($8,400) were provided in Items 546(i) and (j) in Chapter 510, Statutes of 1980. These funds have not been released by the Public Works Board.

Our analysis indicates that the requested working drawing and construction funds should be reduced by $15,100 and $167,580, respectively, to delete funds for unnecessary project features and unjustified costs. Features such as solar domestic hot water heating, new carpet tile, unnecessary landscaping and structural work, are included in the project. The department has not provided any information on the anticipated energy savings attributable to the solar system. Similar proposals for field office facilities, however, indicate that domestic hot water use is extremely low at these facilities, and therefore, supplemental solar heating is not cost effective. The proposed carpeting is also not justified for field office facilities due to lack of durability and high replacement costs. Finally, the requested appropriations contain an allowance for architectural, engineering, and contingency costs equal to 29 percent of the contract amount. Normally, 20 percent of the contract cost should provide sufficient funds for these services.

Accordingly, we recommend that project scope and cost be reduced to delete unnecessary construction features and to reduce excessive architectural, engineering and contingency costs.

Area Office—Gilroy

We recommend deletion of Items 510-301-185(p) and (u), site acquisition and preliminary plans for a new area office at Gilroy, because of a lack of demonstrated need and excessive costs.

The budget requests $450,000 for site acquisition and $59,500 for preliminary plans for construction of a new area facility at Gilroy. The department proposes to purchase a site of approximately 90,000 square feet and construct an office building of approximately 14,500 net square feet with off-street parking for 140 vehicles This will be a full-functioning facility which will house the functions of the Employment Service, Unemployment Insurance, WIN, and CETA. The building will house 58 staff and contain adequate space for operational needs through the year 2000. This building will require additional operation and maintenance expense of $27,200 annually.

The department occupies leased facilities which contain 5,430 square feet for the present full-functioning office. The term of the lease runs until June 1989, and monthly costs are $1,445. The building was expanded in May 1974 to its present size. The department, however, reports that the facility has inadequate space and consequently is overcrowded.

Our on-site examination of the existing office facility revealed the existence of adequate on-street parking. Moreover, the alleged space problems were not in evidence as the existing facility is in good condition, is well-lighted, and has adequate space for each employee to have sufficient work area. Thus, our analysis indicates that the project is not needed. Accordingly, we recommend deletion of the requested appropriations for site acquisiton and preliminary plans.

We also believe deletion of these funds is warranted on a cost basis. The present lease has a yearly rental of $3.19 per net square foot (including parking). The cost of the proposed building would be equivalent to a yearly rental of $18 per net square foot (including parking) assuming a 25-year life and a rate of return on state pooled funds of 10 prcent.

Building Alterations—Los Angeles

We recommend deletion of Items 510-301-185(v), (w), and (x), preliminary plans, working drawings and construction of building alterations, because of the lack of adequate justification.

The budget proposes appropriations of $7,700, $17,300, and $414,600 from the Employment Development Contingent Fund for preliminary plans, working drawings and construction of building alterations at the Employment Development Department's Los Angeles office. The project will alter approximately 40,000 square feet of space. Specifically, interior walls will be removed to provide for open-office landscaping, new private office and conference rooms will be added, and new lighting layouts will be included to complement the new office configuration. In addition, new carpet tiles will be installed over the existing asphalt tile

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY—Continued

flooring and the existing fluorescent light fixtures will be removed or relocated.

The department justifies this project primarily as a means to (1) concentrate on the first and second floors those operations that serve the public, and (2) recover usable space through a revised office layout. The total cost of this project is estimated to be $444,600, with a building cost of $365,000—$9.13 per square foot.

Functions within the Los Angeles office are currently being relocated. For example, the Disability Insurance Division is being moved from the fourth floor to the second floor to provide it with more space. Similarly, functions on the second, third and fourth floors are being relocated within these same floors.

Normally, operational units are located to accommodate a department's needs within the facility's space layout. Building design, however, should not be reconfigured every time a unit is moved. Furthermore, the proposal to local functions which serve the public closer to the first floor lacks justification. The public will still have to use the same elevators to reach these functions, regardless of whether they are on the second floor or the fourth floor.

For these reasons, we believe this project is not justified, and recommend deletion of the requested funds.

Parking Addition—Fullerton

We recommend deletion of Item 510-301-185(y), site acquisition for additional parking at Fullerton, because of lack of need and excessive costs.

A proposed appropriation of $200,000 is requested for the acquisition of two lots, containing 14,000 square feet, to provide an additional 35 parking spaces at the Employment Development Department's area office in Fullerton. The department states that 38 parking spaces are now leased adjacent to this building, and this lease will be cancelled with the acquisition of the new parking site.

It is our understanding that the department has already terminated the contract for the leased parking area because the department considered the lease too expensive. The bank which owned and used the parking area has since moved, and currently this area is used by the general public free of charge. Moreover, this building currrently has 64 Employment Development Department-owned parking spaces for 60 to 62 staff in addition to adequate on-street parking. Also an additional 19 parking spaces are provided by an informal arrangement with a nearby church which allows the department to use church parking during the week. Consequently, our analysis indicates that additional parking is not needed.

Also, the cost of the space which was previously leased was $27.63 per parking space per month. This project, however, would have equivalent monthly costs per parking space of $64. Thus, it would be more economical to lease parking spaces than to acquire this property. We, therefore, recommend deletion of the requested funds based on lack of need and the excessive cost involved.

New Area Office—Watsonville

We recommend deletion of Item 510-301-185(k), working drawings for a new office at Watsonville, because of the lack of a site.

The Employment Development Department has requested an appropriation of $63,000 for working drawings for a new office facility at Watsonville. The proposed building will contain 14,850 gross square feet, provide off-street parking for 140 cars, and include provisions for construction of a building addition of approximately 6,750 square feet in 1996. The present office currently occupies a leased facility of 4,674 square feet which houses the functions of the Employment Service and the Unemployment Insurance operations.

The department states that these premises are barely adequate for continued use in 1980. The present off-street parking is not sufficient and on-street parking is very limited. The lack of parking space has caused claimants to encroach on neighboring shopping centers, which has resulted in numerous problems and complaints.

The Budget Act of 1979 appropriated $19,800 and $340,000 for preliminary plans and site acquisition, respectively. The Real Estate Services Division of the Department of General Services is currently appraising a possible site, but neither site acquisition nor preliminary planning funds have been released by the Public Works Board. Due to the lack of a site, the request for working drawing funds is premature. Accordingly, we recommend that the funds be deleted.

Project Planning Statewide

We recommend approval.

The budget proposes $78,000 for project planning for proposed EDD field office facilities. The amount is calculated at 1 percent of anticipated capital outlay requests for the 1982–83 budget year. The department will allocate these funds for development of cost estimates, and the funds are needed to ensure that adequate information is available to the Legislature to substantiate the project requests. We therefore, recommend approval.

Health and Welfare Agency
DEPARTMENT OF REHABILITATION

Item 516 from the General Fund — Budget p. HW 152

Requested 1981–82	$18,906,066
Estimated 1980–81	19,278,862
Actual 1979–80	16,835,533
Requested decrease (excluding amount for salary increases) $372,796 (−1.9 percent)	
Total recommended reduction	None
Total recommendation pending	$18,906,066

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
516-001-001—Support		General	$18,335,566
—Chapter 1183, Statutes of 1980		General	570,500
Total			$18,906,066

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Impact of Funding Shortage. Withhold recommendation on Item 516, pending receipt of information detailing the actual and anticipated effect of funding and staffing reductions on client services in the current and budget years. 930

DEPARTMENT OF REHABILITATION—Continued

GENERAL PROGRAM STATEMENT

The Department of Rehabilitation is responsible for assisting physically or mentally handicapped individuals achieve social and economic independence by providing rehabilitation services. These services are aimed at (1) enabling placement in suitable employment and (2) maintaining clients at their highest functioning levels. The department operates primarily under the authority of the Federal Rehabilitation Act of 1973, as amended in 1974 and 1978, and Division 10 of the Welfare and Institutions Code. Its functions are carried out through the following four programs.

1. ***Vocational Rehabilitation Services.*** The vocational rehabilitation program is the major function of the department. Its objective is to enable handicapped individuals to find suitable employment. The primary tasks are performed by rehabiltiation counselors who (a) evaluate applicants for rehabilitation services, (b) work with disabled persons in developing an individualized written rehabilitation plan (IWRP), (c) coordinate services delivered to clients, (d) assist clients in finding suitable work, and (e) maintain follow-up contact to assure continued employment.

The program also assists the blind to become self-supporting by providing training in food services and vending facilities management, employment in existing or new vending businesses in public or private buildings, and small business opportunities in both the public and private sectors.

2. ***Habilitation Services.*** This program addresses the prevocational needs of severely handicapped adults who are unable to benefit from mainstream vocational rehabilitation programs. It provides developmental programs targeted at increased independence, improved social functioning, maintenance of clients at their highest functioning levels, and, to the extent feasible, development of the individual's potential for mainstream vocational rehabilitation programs.

3. ***Support of Community Facilities.*** This program works with government and private nonprofit organizations to improve community rehabilitation services. Such services are provided by rehabilitation workshops and centers, independent living programs, special facilities for the blind and deaf, halfway houses, and alcohol recovery homes.

4. ***Administration.*** Administration provides executive direction, planning, fiscal and support services to the department.

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $18,906,066 from the General Fund for support of the Department of Rehabilitation in 1981–82. This is a decrease of $372,796, or 1.9 percent, below estimated current year expenditures. The proposed amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

Total 1981–82 program expenditures, including expenditures of federal funds and reimbursements, are projected at $139,776,998, a decrease of $2,693,707, or 1.9 percent, below estimated current year expenditures.

The net General Fund decrease of $372,796 consists of reduced costs totaling $3,067,191 and increased expenditures of $2,694,395. The cost increases include (1) $179,748 in staff benefits (exclusive of salary increases), (b) $967,600 in operating expenses and equipment, (c) $1,106,047 to replace federal funds lost by independent living centers, and (d) $441,000 for comprehensive service center planning, pursuant to Chapter 1183, Statutes of 1980. These increases are more than offset by reduced expenditures of (a) $2,653,583 to eliminate support for the long-term funding program established by Chapter 1227, Statutes of 1978, (b) $375,000 which was provided on a one-time basis during the current year and (c) $38,608 in health benefits. Table 1 details these adjustments.

Table 1
Department of Rehabilitation
Proposed General Fund Adjustments
1981–82

	Adjustment	*Total*
1980–81 Current Year Expenditures		$19,278,862
1. Baseline adjustments for existing programs		
A. Increase in existing personnel costs		
1. Merit salary adjustments	80,400	
2. OASDI	12,596	
3. Health benefits	−38,608	
4. Transfer of medical consultants from DDS	86,752	
Subtotal		$141,140
B. Operating expenses and equipment		
1. Support related		
a. General	$156,027	
b. Study on the communication needs of deaf persons	−75,000	
c. Comprehensive service center planning (Chap. 1183/80)	441,000	
Subtotal		$522,027
2. Client related		
a. General	$662,823	
b. Community facility grants	148,750	
c. Rehabilitation revolving loan fund (Chap. 810/80)	−300,000	
d. Long term funding program	−2,653,583	
Subtotal		−$2,142,010
Total Baseline Adjustments		−$1,478,843
2. Program change proposals for 1981–82		
A. Independent living program		$1,106,047
3. Total budget change proposed		−$372,796
4. Total General Fund 1981–82 Expenditures		$18,906,066

Table 2 details the department's total current and budget year expenditures, by funding source and program. The department is experiencing a *net* reduction of $6,861,011 in federal funds in the budget year. This reduction is primarily offset by a $4,240,100 increase in reimbursements from the Department of Developmental Services for workload increases in the work activity program.

New Legislation

Chapter 810, Statutes of 1980 (AB 754), established a Rehabilitation Revolving Loan Fund, to be administered by the Department of Rehabilitation, for the purpose of facilitating the transportation of the physically handicapped. Loans will be made to parents of physically handicapped children who have incomes within the guidelines of the federal Housing and Community Development Act of 1974. The loans will finance the purchase of vans, automobiles and other special equipment. The act appropriated $300,000 from the General Fund, to the Department of Rehabilitation, to establish the Rehabilitation Revolving Loan Fund.

Chapter 1183, Statutes of 1980 (AB 2687), authorized the Department of Rehabilitation to conduct a study on the feasibility of establishing comprehensive service centers for the disabled. The act appropriated $700,000 from funds appropriated to the contingency reserve for economic uncertainties in the General

DEPARTMENT OF REHABILITATION—Continued

Table 2
Department of Rehabilitation
Budget Summary
1980–81 and 1981–82

	Estimated 1980–81	*Proposed 1981–82*	*Changes*	
			Amount	*Percent*
Funding:				
General Fund	$19,278,862	$18,906,066	–$372,796	–1.9%
Federal funds	90,950,018	84,089,007	–6,861,011	–7.5
Special deposit fund—Vending Stand Account	1,185,426	1,185,426	—	—
Federal special deposit fund—Vending Stand Account	1,007,624	1,007,624	—	—
Reimbursements	30,348,775	34,588,875	4,240,100	14.0
Loan guarantee fund	–300,000	—	300,000	100.0
Totals	$142,470,705	$139,776,998	–$2,693,707	–1.9%
Program expenditures				
10 Vocational rehabilitation services	$107,794,335	$103,124,250	–$4,670,085	–4.3%
20 Habilitation services	29,100,911	31,155,600	2,054,689	7.1
30 Support of community facilities	5,575,459	5,497,148	–78,311	–1.4
40 Administration	(11,334,491)	(11,425,700)	(91,209)	(0.8)
Totals	$142,470,705	$139,776,998	–$2,693,707	–1.9%

Fund. Of this amount, $129,500 was appropriated to the Department of Rehabilitation in 1980–81, and $64,800 was appropriated to the department in 1981–82. The remaining $505,700 is appropriated to the Department of Finance in 1981–82 and may be allocated to the Department of Rehabilitation upon submittal and approval of the required feasibility report. The budget proposes the expenditure of the full amount appropriated for 1981–82—$570,500—by the Department of Rehabilitation.

Legislative Followup. The Supplemental Report of the 1980 Budget Act required the Department of Rehabilitation to report to the Joint Legislative Budget Committee by November 30, 1980 on the feasibility of requiring a nonstate match from independent living centers receiving state support. At the time this Analysis was written, the department had not submitted the required report.

Impact of Funding Shortages Unidentified

We withhold recommendation on the Department of Rehabilitation's budget, pending receipt of information detailing the actual and anticipated effect of funding and staffing reductions on client services in the current and budget years.

Funding Shortage. The 1981–82 Governor's Budget document identifies significant reductions of federal funds for the Department of Rehabilitation in the current and budget years. Specifically, the administration identifies federal funding reductions totaling $10,782,146 and $16,705,777 in 1980–81 and 1981–82, respectively. The majority of this reduction is for vocational rehabilitation services, the department's largest program activity.

The administration proposes to decrease expenditures commensurate with this funding shortfall by reducing state staff and purchased services for clients. At the time this Analysis was prepared, a current year deficiency was not anticipated.

Our analysis indicates that the specific effects of the funding reductions, and the administration's corresponding workload adjustments, on client services have not been determined. As a result, we are unable to verify that the department will not experience a funding deficiency in the current year. Moreover, we are unable to advise the Legislature concerning the cumulative effect of current and budget year funding reductions on the level of services provided to clients in the budget year. We have not been able to ascertain, for example, the specific services which are no longer being purchased for clients, or the capacity of the department to provide these services with available staff resources.

Pending receipt of information detailing the actual and anticipated effect of the department's funding and staffing reductions on client services in the current and budget years, we withhold recommendation on Item 516.

Jobs for the Disabled—Transfer of Funding Appropriation Recommended

The State Personnel Board (SPB) administers the Career Opportunities Development (COD) program. It annually transfers funds to the Department of Rehabilitation (DOR) to assist the department in securing federal vocational rehabilitation funds. DOR subsequently contracts with SPB, in the same amount, to pay salaries for disabled program participants. In the budget year, SPB is proposing to transfer $1,752,225 to DOR.

Our anlysis indicates that these funds should be appropriated in the Department of Rehabilitation's (rather than the SPB's) budget because:

1. The existing arrangement causes COD program requirements to be overstated,
2. Current practices do not give the Legislature a clear picture of the funding sources utilized by the Department of Rehabilitation when providing state match for its program, and
3. The COD program could be streamlined by eliminating unnecessary administrative steps.

In our analysis of the State Personnel Board (Item 188), we recommend that $1,725,225 be transferred from that item to Item 516 for direct appropriation to the Department of Rehabilitation. If the budget subcommittees accept this recommendation, we then recommend that Item 516 (Department of Rehabilitation) be increased by $1,752,225 to accomplish this transfer.

To insure that these funds are used to serve only those clients who are eligible for COD services, we also recommend the following control language requiring the Department of Rehabilitation to use these funds to provide jobs for disabled clients who are COD-eligible.

"Provided that all funds appropriated to the Department of Rehabilitation for the COD program be used to serve only the COD-eligible disabled."

DEPARTMENT OF REHABILITATION—CAPITAL OUTLAY

Item 516-301 from the General Fund, Special Account for Capital Outlay — Budget p. HW 161

Requested 1981–82	$55,000
Recommended reduction	20,000
Recommendation pending	35,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Minor Capital Outlay. Withhold recommendation on air conditioning units, pending receipt of Department of General Services' study.	932
2. ***Minor Capital Outlay. Reduce by $20,000.*** Recommend deletion of emergency egress system which has not been approved by the State Fire Marshal.	933

ANALYSIS AND RECOMMENDATIONS

The budget (Items 516-301-036 and 516-301-890) proposes the expenditure of $11,000 from the General Fund, Special Account for Capital Outlay (SAFCO), and $44,000 from the Federal Trust Fund for two minor capital outlay projects.

Table 1
Department of Rehabilitation
Minor Capital Outlay 1981–82

Project	*General Fund*	*Federal Trust Fund*	*Total Cost*
Air conditioning for data processing equipment	$7,000	28,000	$35,000
Emergency Egress System	4,000	16,000	20,000
Totals	$11,000	$44,000	$55,000

Air Conditioning System

We withhold recommendation on Item 516-301-036 and Item 516-301-890, air conditioning for data processing equipment, pending receipt of Department of General Services study.

The budget proposes the expenditure of $35,000 ($7,000 General Fund, SAFCO, and $28,000 Federal Trust Fund) for additional air conditioning units at the department's headquarters. The department has upgraded its present data processing equipment and added equipment. This has resulted in a heat build-up inside the computer area, reaching at times a temperature of 85°F. This equipment requires an environment of 75°F and 50 percent relative humidity or else the equipment will malfunction causing loss of programs. Thus, additional air conditioning is necessary. However, the department does not know what will be required to correct the problem at this time. The Department of General Services has undertaken a study (due February 1981) to determine the measures needed to correct the problem. Until this study is completed, the need for the requested amount cannot be substantiated. The necessary information should be available prior to budget hearings. Thus, we withhold recommendation, pending receipt of the department's study.

Emergency Exiting System

We recommend a reduction of $4,000 in Item 516-301-036 and a reduction of $16,000 in Item 516-301-890 to delete funds for an emergency egress system because the system has not yet been approved by the State Fire Marshal.

The budget proposes the expenditure of $20,000 ($4,000 General Fund, SAFCO, and $16,000 Federal Trust Fund) for an emergency egress (exiting) system at a Department of Rehabilitation office building. The department indicates that installation of this system would allow disabled individuals to evacuate the building in their wheelchairs. The proposed system is battery powered.

This egress system is experimental and still in development at the University of California, Davis campus. The budget amount is based on the department's best estimate at this time. However, the cost of the system will not be fully known until development has been completed. Accordingly, the request for funding is premature.

This prototype emergency egress system was proposed for the central headquarters building in the budget for 1980–81. Its cost was then estimated at $50,000. The Legislature appropriated this amount, and included budget language restricting expenditures until the State Fire Marshal approved the system. The department has not yet obtained the approval of the Fire Marshal for the prototype project.

We therefore recommend deletion of this project because adequate support for the budget amount is not available, and because the State Fire Marshal has not yet approved a prior prototype project.

DEPARTMENT OF SOCIAL SERVICES SUMMARY

The Department of Social Services is the single state agency responsible for supervising the delivery of cash grants and social services to needy persons in California. Monthly grant payments are made to eligible recipients through two programs—Aid to Families with Dependent Children (AFDC) and the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program. In addition, welfare recipients, low-income individuals, and persons in need of protection may receive a number of social services such as information and referral, domestic and personal care assistance, and child and adult protective services.

Table 1 identifies total expenditures from all funds for programs administered by the Department of Social Services for 1980–81 and 1981–82. Total expenditures for 1981–82 are proposed at $5,980,087,931, which is an increase of $51,728,507, or 0.9 percent, over estimated current year expenditures.

Table 2 shows the *General Fund* expenditures for cash grant and social services programs administered by the Department of Social Services. The department requests a total of $2,588,806,202 from the General Fund for 1981–82. This is a decrease of $214,502,462, or 7.7 percent, from estimated current-year expenditures.

Special Adjustments. The budget anticipates changes in state law or regulation which would reduce General Fund expenditures for welfare programs by $47,081,962 and increase revenues by $1,028,400. These proposals are discussed in more detail elsewhere in this analysis. Table 3 identifies the specific sources of the $48,110,362 in savings anticipated by the budget.

DEPARTMENT OF SOCIAL SERVICES SUMMARY—Continued

Table 1
Department of Social Services
Expenditures and Revenues by Program
All Funds
1980–81 and 1981–82

Program	*Estimated 1980–81*	*Proposed 1981–82*	*Change Amount*	*Change Percent*
Department support	$127,849,805	$131,337,454	$3,487,649	2.7%
AFDC cash grants	2,553,851,600	2,662,136,700	108,285,100	4.2
SSI/SSP cash grants	2,038,020,400	1,937,990,400	−100,030,000	−4.9
Special adult programs	82,222,016	108,189,300	25,967,284	31.6
Special social services programs	622,996,877	596,189,063	−26,807,814	−4.3
In-home supportive services	(243,486,011)	(270,884,325)	(27,398,314)	(11.3)
Community care licensing	(15,756,100)	(6,463,700)	(−9,292,400)	(−59.0)
County welfare department administration	503,418,726	544,245,014	40,826,288	8.1
Local mandates	(8,350,320)	(8,458,000)	(107,680)	1.3
Special Adjustments:				
Reduced expenditures	—	(−61,223,662)	(−61,223,662)	—
Increased revenues	—	(1,028,400)	(1,028,400)	—
Totals	$5,928,359,424	$5,980,087,931	$51,728,507	0.9%
General Fund	*2,803,308,664*	*2,588,806,202*	*−214,502,462*	*−7.7*
Federal funds	*2,829,483,551*	*3,094,625,186*	*265,141,635*	*9.4*
County funds	*276,576,170*	*287,287,557*	*10,711,387*	*3.9*
Reimbursements	*18,868,039*	*9,368,986*	*−9,499,053*	*−50.3*
Emergency Revolving Fund	*123,000*	—	*−123,000*	*−100.0*

Table 2
Department of Social Services
General Fund Expenditures
1980–81 and 1981–82

Budget Item	*Program*	*Estimated 1980–81*	*Proposed 1981–82*	*Change Amount*	*Change Percent*
518-001-001	Department support	$51,325,252	$49,320,058	−$2,005,194	−3.9%
518-101-001 (a)	AFDC cash grants	1,195,856,900[a]	1,215,955,900	20,099,000	1.7
518-101-001 (b)	SSI/SSP cash grants	1,251,981,900[a]	1,051,005,000	−200,976,900	−16.1
518-101-001 (c)	Special adult programs	5,596,016[a]	3,728,800	−1,867,216	−33.4
518-101-001 (d)	County welfare department administration	102,249,654[a]	110,092,643	7,842,989	7.7
518-101-001 (e)	Special social services programs	172,192,522	143,782,101	−28,410,421	−16.5
	In-home supportive services	(142,944,564)	(117,727,145)	(−25,217,419)	(−17.6)
518-101-001 (f)	Community care licensing	15,756,100	6,463,700	−9,292,400	−59.0
518-101-001 (g)	Local mandate	8,350,320	8,458,000	107,680	1.3
	Special Adjustments:				
	Reduced expenditures	—	(−47,081,962)	(−47,081,962)	—
	Increased revenues	—	(−1,028,400)	(−1,028,400)	—
	Totals	$2,803,308,664	$2,588,806,202	−$214,502,462	−7.7%

[a] Includes funds for anticipated deficiency.

Table 3
Department of Social Services
Special Adjustments [a]
General Fund
1981–82

Program	*Special Adjustments*	*Total*
Department Support		
1. Deletion of family day care licensing requirement	–$886,200	
2. Charge licensing fees for specified community care facilities	323,200	
Subtotal		–$563,000
AFDC Cash Grants		
1. Limit eligibility for state AFDC-U program	–$28,780,200	
2. Eliminate 80 percent grant supplementation	–6,423,000	
Subtotal		–$35,203,200
Special Adult Programs		
1. Eliminate emergency loan program for SSI/SSP recipients		–$1,765,862
Special Social Services		
1. Deletion of family day care licensing requirement		–$7,879,300
County Welfare Department Administration		
1. Limit eligibility for state AFDC-U program	–$1,233,700	
2. Eliminate 80 percent grant supplementation	–436,900	
Subtotal		–$1,670,600
Total, Reduced Expenditures		–$47,081,962
Total, Increased Revenues—Community Care Licensing Fees		–$1,028,400
Total Savings		–$48,110,362

[a] Source: Governor's Budget Page A-25

Health and Welfare Agency
DEPARTMENT OF SOCIAL SERVICES

Item 518-001 from the General Fund — Budget p. HW 162

Requested 1981–82	$49,320,058
Estimated 1980–81	51,325,252
Actual 1979–80	40,165,050
Requested decrease (excluding amount for salary increases) $2,005,194 (–3.9 percent)	
Total recommended reduction	$2,680,147
Total recommendation pending	$2,102,086

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Contracts With the Health and Welfare Agency. Reduce by $25,956.*** Recommend reduction of $51,912 ($25,956 General Fund and $25,956 federal funds) to correct overbudgeting. 948
2. ***Out-of-State Travel. Reduce by $14,667.*** Recommend reduction of $27,675 ($14,667 General Fund and $13,008 federal funds) to reflect actual expenditure pattern. 948

DEPARTMENT OF SOCIAL SERVICES—Continued

3. *Equipment. Reduce by $101,344.* Recommend deletion of $220,312 ($101,344 General Fund, $107,953 federal funds, and $11,015 reimbursements) proposed for unnecessary equipment. 949
4. Attorney General Legal Services. Withhold recommendation on $2,542,973 for legal services ($1,169,768 General Fund, $1,246,057 federal funds and $127,148 reimbursements) pending Department of Finance reconciliation of conflicting estimates for such services. 950
5. *Salary Savings. Reduce by $855,038.* Recommend amount budgeted for salary savings be increased to reflect recent trends for a savings of $2,035,805 ($855,038 General Fund, $1,099,334 federal funds, and $81,433 reimbursements). 951
6. Unscheduled reimbursements. Recommend adoption of control language requiring that General Fund costs be reduced by the amount of unscheduled reimbursements received by the department. 952
7. *Health and Welfare Agency Consolidated Data Center. Reduce by $188,623.* Recommend reduction of $342,950 ($188,623 General Fund, $150,898 federal funds, and $3,429 reimbursements) to reflect past expenditures and prevent overbudgeting. 952
8. *Data Processing. Reduce by $128,526.* Recommend reduction of $233,683 ($128,526 General Fund, $102,820 federal funds, and $2,337 reimbursements) to delete funds for expiring contracts and to reflect actual expenditures. 955
9. Data Processing Positions. Recommend adoption of Budget Bill language requiring the Department of Finance to notify the Legislature of the savings resulting from implementing new electronic data processing systems, prior to continuing nine EDP positions beyond December 31, 1981. 955
10. *Training for Computer Programmers. Reduce by $65,578.* Recommend reduction of $119,232 ($65,578 General Fund and $53,654 federal funds) budgeted in temporary help to train computer programmers because proposal represents a piecemeal approach to a statewide problem. 956
11. Foster Care Management Information System. Withhold recommendation on $500,000 in federal funds proposed for the development and implementation of a foster care management information system, pending review of a feasibility study report. 956
12. *SPAN Project—Consultant and Professional Services Contracts. Reduce by $74,800.* Recommend reduction of $220,000 ($74,800 General Fund and $145,200 federal funds) budgeted for consultant and professional services contracts in the statewide Public Assistance Network (SPAN) Project because state staff are available to perform these activities. 958
13. *SPAN Project—In-State Travel. Reduce by $33,660.* Recommend reduction of $99,000 ($33,660 General Fund and $65,340 federal funds) overbudgeted for in-state travel. 959
14. *SPAN Project—Training Funds. Reduce by $13,637.* Recommend reduction of $40,108 ($13,637 General Fund and $26,471 federal funds) overbudgeted for training. 959
15. *SPAN Project—External Affairs Manager. Reduce by $33,559.* Recommend deletion of $98,702 ($33,559 General Fund and $65,143 federal funds) budgeted for the external affairs manager because county advice and recommendations are already available 960

to the department.

16. SPAN Project—Feasibility Study Report. Recommend the department submit a report to the Legislature containing county recommendations on the feasibility study report. 960
17. SPAN Project—Pilot Project. Withhold recommendation on $1,676,617 ($561,645 General Fund, $899,730 federal funds and $215,242 reimbursements) budgeted for the pilot project pending receipt of the department's feasibility study report and a document describing proposed operation of the pilot project. 961
18. Refugee Resettlement Program. Recommend deletion of 19 positions because of excessive workload projections and duplication of functions performed by existing staff, for a reduction of $657,042 in federal funds. 964
19. ***Fair Hearing Officers. Reduce by $220,554.*** Recommend deletion of nine fair hearing officers, due to overbudgeting, for a savings of $416,138 ($220,554 General Fund, $158,132 federal funds, and $37,452 reimbursements). 966
20. ***Food Stamp Positions. Reduce by $41,721.*** Recommend deletion of three positions because workload has not been documented, for a savings of $83,442 ($41,721 General Fund and $41,721 federal fund. 968
21. ***Community Care Licensing—Workload Standards. Reduce by $454,332.*** Recommend deletion of 19 new facilities evaluator and support positions to reflect adjusted workload standards, for a General Fund savings of $454,332. 969
22. Community Care Licensing—Legal Services. Recommend five proposed new legal services positions be limited to June 30, 1982 because of probable workload savings. 971
23. ***Social Services—Evaluation. Reduce by $183,097.*** Recommend deletion of six new positions proposed to evaluate children's services programs because sufficient staff exist to accomplish this function, for a General Fund savings of $183,097. 972
24. ***Interstate Compact for the Placement of Children. Reduce by $58,142.*** Recommend (1) transfer of responsibility for coordinating the placement of children in foster care with other states from the Planning and Review Division to the Adult and Family Services Division, and (2) deletion of two proposed new positions for this activity to consolidate the responsibility under one deputy direction and utilize existing staff, for a General Fund savings of $58,142. 973
25. Systems and Policy Branch Reorganization—Workload Data Requested. Withhold recommendation on $438,148 ($370,673 General Fund and $67,475 in federal funds) and 11 positions, pending receipt of detailed workload data. 975
26. ***Office of Government and Community Relations. Reduce by $186,913.*** Recommend: 976
    a. Deletion of two professional positions, 2.5 clerical positions, and contract funds because the positions duplicate functions of authorized positions, for a savings of $212,342 ($116,788 General Fund and $95,554 federal funds).
    b. Deletion of a staff services manager II in the welfare program operations division and a staff services manager II in the Adult and Family Services Division because the positions duplicate functions of authorized positions, for a savings of $92,926 ($70,125 General Fund and $22,801 federal funds).

DEPARTMENT OF SOCIAL SERVICES—Continued

GENERAL PROGRAM STATEMENT

Chapter 1252, Statutes of 1977 (AB 363), created a new Department of Social Services, effective July 1, 1978. The new department retained the welfare operations function of the former Department of Benefit Payments, and assumed responsibility for the disability evaluation, community care licensing and social services functions of the former Department of Health. Departmental functions are carried out through nine divisions.

Legal Affairs Division

The Legal Affairs Division consists of the Office of the Chief Counsel and the Office of the Chief Referee. The Office of the Chief Counsel provides legal advice to departmental managers and supports the Attorney General in litigating cases affecting the department. The Office of the Chief Referee is responsible for conducting administrative hearings to determine the fairness of decisions made by county welfare department personnel in handling welfare cases.

Administration Division

The Administration Division has responsibility for providing all support functions for the Department of Social Services. The functions include (1) processing personnel transactions, (2) providing space and centralized typing services, (3) managing the accounting and budgeting systems of the department, (4) collecting and analyzing data regarding the programs administered by the department, and (5) developing estimates of the projected costs and caseloads of the cash assistance and social services programs.

Centralized Delivery System

This division is responsible for the definition, design, development and implementation of an automated system for delivering financial assistance and services to welfare recipients in California. The division was established in response to Chapter 282, Statutes of 1979 (AB 8), which requires the department to implement a statewide centralized delivery system for welfare benefits by July 1, 1984.

Adult and Family Services Division

The Adult and Family Services Division is responsible for managing and administering social services programs including in-home supportive services, other county social services, child welfare services and the state adoptions program. The division consists of five branches: (1) Family and Children's Services, (2) Adult Services, (3) Adoptions, (4) Systems and Policy and (5) AB 1642 Implementation. It plans, organizes and directs the operation of statewide social services programs delivered through county welfare departments, private agencies under contract, and other state departments. In addition, the division performs direct adoptions casework through three district offices.

Welfare Program Operations

The Welfare Program Operations Division has overall responsibility for the management of payment programs which provide financial assistance to needy individuals. The division consists of five branches. The AFDC Program Management Branch provides policy direction and interpretation to county welfare departments in administering the payment of grants under the AFDC program. The Adult Program Management Branch provides liaison with the Social Security Administration which administers the State Supplementary Payment (SSP) program. This branch also provides direction to the counties in the administration of various special adult programs including Emergency Loan, Special Circumstances, and the Guide Dog Special Allowance. The Boarding Homes and Institutions (BHI) rate-setting branch is responsible for making recommendations to the Legislature for setting AFDC Foster Care rates. The Food Stamp Program Management Branch supervises the county administration of the federal Food Stamp program. The Child Support Program Branch develops statewide policies and procedures for collecting child support from absent welfare and nonwelfare parents.

Community Care Licensing

The Community Care Licensing Division (1) supports the facilities evaluation activities of county licensing agencies through the development of regulations, the collection of statewide data and the investigation of complaints and (2) directly licenses community care facilities. The division is organized into three branches to carry out these responsibilities: (1) Field Operations, (2) Client Protection Services, and (3) Policy and Administrative Support. The Field Operations and Client Protective Services Branches maintain district offices throughout the state.

Planning and Review Division

The Planning and Review Division (1) responds to public inquiries regarding cash assistance and social services programs, (2) conducts studies of the personnel and financial management practices of the department, (3) evaluates the efficiency, equity and effectiveness of programs carried out by the 58 county welfare departments, and (4) develops error rate estimates for the determination of eligibility and level of payment to clients of the cash assistance and in-home supportive services programs.

Disability Evaluation Division

The Disability Evaluation Division is responsible for determining the medical eligibility of California residents for benefits under the disability insurance, supplemental security income, and medically needy programs of the Social Security Act. There are six regional offices throughout the state responsible for processing disability claims.

Executive Division

The Executive Division consists of the director's immediate staff and six special offices: (1) Affirmative Action, (2) Public Information, (3) Government and Community Relations, (4) Refugee Services, (5) Deaf Access and (6) Services to the Blind. In addition, five advisory committees report to the director on issues concerning child abuse, social services, life care contracts, community care facilities, and services planning.

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $49,320,058 from the General Fund for support of the Department of Social Services in 1981–82. This is a decrease of $2,005,194, or 3.9 percent below estimated current year expenditures. This amount will increase by the amount of any salary or staff benefit increase approved for the budget year.

The budget proposes total expenditures of $131,337,454 from all funds for the support of the department in 1981–82. This is an increase of $3,487,649, or 2.7 percent, over estimated 1980–81 expenditures. Table 1 shows total expenditures, by division.

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 1
Summary of the Department of Social Services Support Budget
1980–81 and 1981–82

Funding	*Estimated 1980–81*[a]	*Proposed 1981–82*[a]	*Change Amount*	*Change Percent*
General Fund	$51,325,252	$49,320,058	−$2,005,194	−3.9%
Federal funds	72,026,956	76,123,854	4,096,898	5.7
Reimbursements	4,497,597	5,893,542	1,395,945	31.0
Totals	$127,849,805	$131,337,454	$3,487,649	2.7%
Division				
Administration	$18,267,597	$17,839,788	−$427,809	−2.3%
Personnel-years	537.4	541.4	4.0	0.7
Legal affairs	6,113,515	7,001,248	887,733	14.5
Personnel-years	147.2	152.2	5.0	3.4
Adult and family services	9,139,054	9,763,557	624,503	6.8
Personnel-years	263.0	262.0	−1.0	−0.4
Welfare program operations	9,215,194	8,313,169	−902,025	−9.8
Personnel-years	174.0	166.0	−8.0	−4.6
Community care licensing	10,010,789	11,486,076	1,475,287	14.7
Personnel-years	310.6	362.5	51.9	16.7
Planning and review	10,551,207	10,422,219	−128,988	−1.2
Personnel-years	308.5	314.3	5.8	1.9
Disability evaluation	50,333,051	52,617,003	2,283,952	4.5
Personnel-years	1,361.0	1,361.0	—	—
Centralized delivery system	6,621,937	10,286,876	3,664,939	55.3
Personnel-years	193.7	208.7	15.0	7.7
Executive	7,597,461	4,170,518	−3,426,943	−45.1
Personnel-years	183.8	106.5	−77.3	−42.1
Special adjustment	—	−563,000	−563,000–	
Personnel-years	—	−18.5	−18.5	—
Totals	$127,849,805	$131,337,454	$3,487,649	2.7%
Personnel-years	3,479.2	3,456.1	−23.1	−0.7%

[a] Personnel-years do not equate with authorized positions due to vacancies.

Proposed General Fund Budget Changes

Table 2 details the changes in the department's proposed General Fund expenditures for 1981–82. This table shows that expenditures in the budget year will decrease by $2,005,194, or 3.9 percent, from the current year. The net General Fund decrease of $2,005,194 consists of reduced costs totaling $7,930,180 and increased expenditures of $5,924,986. The major cost increases include (a) $798,442 for merit salary adjustments and staff benefits (exclusive of cost of living salary increases), (b) $715,919 for a 7 percent increase in operating expenses and equipment, and (c) $3,979,399 to establish new or continue existing programs and positions. The increased costs are offset by reduced expenditures of (a) $4,794,702 in one-time expenditures during the current year, (b) $1,957,703 for limited-term and administratively-established positions, (c) $563,000 in special adjustment reductions proposed by the administration, and (d) $614,775 in other proposed changes.

Table 2
Proposed General Fund Adjustments
For the Department of Social Services Support Budget

	Cost	*Total*
1. 1980–81 Current Year Revised Expenditures		$51,325,252
2. Baseline adjustments for existing programs.		
A. Increase in existing personnel costs		
1. Merit salary adjustment	$559,345	
2. OASDI	131,343	
3. Retirement	105,776	
4. Workers' compensation	1,978	
Subtotal		$798,442
B. Decreases in existing personnel costs		
1. Limited-term positions [a]		
a. SPAN project	−894,380	
b. AFDC-BHI rate setting project	−73,896	
c. Administrative support—accounting	−17,783	
d. California Fiscal Information System	−34,544	
e. AFDC—foster care	−74,080	
f. Adult services	−194,380	
g. Child protective services	−87,128	
Subtotal		−$1,376,191
2. Administratively established positions [a]		
a. SSI/SSP quality control review project	−$167,549	
b. Office of Deaf Services	−40,582	
c. IHSS payrolling	−39,824	
d. Community care licensing of group homes	−333,557	
Subtotal		−$581,512
C. One-time expenditures		
1. 1980–81 disaster relief	−$4,600,000	
2. Equipment expenditures	−194,702	
Subtotal		−$4,794,702
D. Seven percent price increase for operating expenses and equipment		$715,919
Total, Baseline Adjustments		(−$5,238,044)
3. Program change proposals		
A. Department of Social Services		
1. Proposed position changes		
a. Community care licensing	$1,589,374	
b. SPAN project	1,239,601	
c. Other	1,150,424	
Subtotal		$3,979,399
2. Other proposed changes		
a. Salary savings and overhead adjustments	$83,047	
b. Department of Finance reductions	−697,822	
Subtotal		−$614,775
B. Reimburse Office of Administrative Law		$122,941
C. Reimburse Department of Justice		$308,285
Total, Program Change Proposals		($3,795,850)
4. Special adjustments		
A. Deletion of family day care licensing requirement	−$886,200	
B. Charge licensing fees for specified community care facilites	323,200	
Total, Special Adjustments		−$563,000
5. Total General Fund Change Proposed for 1981–82		(−$2,005,194)
6. 1981–82 Proposed General Fund Expenditures		$49,320,058

[a] Funds to continue some of these activities in the budget year are contained in the program change proposals for the department.

DEPARTMENT OF SOCIAL SERVICES—Continued

Special Adjustments

The budget for state support of the Department of Social Services includes net reductions of $563,000 from the General Fund due to anticipated changes in current state law regarding the community care licensing program. Currently, the Department of Social Services (1) licenses and evaluates community care facilities to ensure the health and safety of residents and clients, (2) develops regulations for the operation of these facilities under the provisions of the Health and Safety Code, and (3) investigates complaints against community care facilities. In addition, 48 counties contract with the state to license certain community care facilities within their jurisdiction.

The legislative changes anticipated by the budget are (1) deletion of the statutory requirement that the department license small family day care homes, for an anticipated state savings of $886,200 and (2) reestablishment of fees for licensure, at an estimated state support cost of $323,200.

Deletion of Licensing Requirement for Small Family Day Care Homes

The 1981 Budget Bill, as introduced, anticipates passage of legislation to delete the existing statutory licensure requirement pertaining to small family day care homes for children. This change is estimated to result in savings of $886,200 in state support costs, as shown in Table 2, and $7,879,300 in local assistance payments to counties which currently contract with the state to license family day care homes. The county-operated portion of the community care licensing program is discussed in our analysis of Item 518-101-001 (e) and (f).

A family day care home, as defined by state law and referred to by the proposed change, provides care, protection and supervision to up to 12 children, in the care-giver's own home, for periods of less than 24 hours per day, while the parents or guardians are away. If one adult care provider is present in the home, up to six children may be cared for under existing state law. With an assistant present, a maximum of twelve children may be cared for in a family day care home. If more than twelve children are cared for in a facility, the facility must be licensed as a day care *center.*

State Support Savings Underbudgeted. The savings estimate of $886,200 in state support is based on a reduction of 32.5 positions from the Community Care Licensing Division, 22 of which we understand would be facility evaluators. The remaining 10 positions would consist of various support staff in the division. Our analysis indicates that the assumptions underlying this estimate are conservative and additional savings could be realized if the proposed change in state law is approved. The basis for this conclusion is as follows:

First, the 32.5 positions do not include state staff in the Policy and Administrative Support or Client Protection Services branches of the Community Care Licensing Division. Our analysis indicates that policy development and audit investigation workload would also diminish in these branches if licensure of family day care homes was eliminated.

Second, the estimate of state support savings is based on a projection of 2,928 facilities being affected in 1981–82. An August 1980 work volume count of state-licensed facilities identified 3,030 of these facilities. Because the number of licensed small family day care homes is expected to continue to increase during 1980–81, the projection of 2,928 facilities appears to underestimate potential state savings.

To the extent that (1) workload related to policy development and audit investigation is reduced due to the deletion of family day care licensing, and (2) more facilities are licensed than the number included in the estimate, the budget underestimates state staff savings which should accrue if this change in law is approved.

Licensing Family Day Care Homes. We are unable to advise the Legislature of the specific impact of this proposal on the operation of small family day care homes. In our review of the licensure of these facilities, we have identified, however, several factors which the Legislature may wish to consider in its debate on this statutory change. First, these facilities do not generally provide highly technical or specialized services and can, therefore, be evaluated by the parents or guardians of children who may use the facilities. In addition, because children stay in the facilities less than 24 hours each day, the parent or guardian generally has daily contact with the facility and its operators. On-site licensing visits to the facilities are currently required only once every two years.

Second, many small family day care homes are not currently licensed. The Department of Social Services has estimated that up to 50 percent of all such facilities currently operate without a license.

Third, state licensing staff receive fewer complaints per facility for small family day care homes than for community care facilities in total. For example, in August 1980, the latest data available, small family day care homes accounted for 22 percent of all licensed community care facilities but only 11 percent of complaints involved these facilities. Our analysis indicates that a large share of the complaints involving small family day care homes concern operation of a facility without a license.

Finally, the Legislature already has recognized the relative safety of small family day care homes in establishing less restrictive procedures for the licensure of these facilities and by creating a three-county demonstration project to *certify* small family day care homes rather than require *licenses* for their operation (Chapter 1063, Statutes of 1979).

Fees For Licensure

The 1981–82 Governor's Budget also assumes that legislation will be enacted to intiate the imposition of fees for licensing certain community care facilities. We are unable to advise the Legislature of the specific impact of this proposal on the operation of such facilities. Such legislation would require the Legislature, however, to reverse the policy it established in enacting Chapter 91, Statutes of 1980, which prohibits fees for the licensure of community care facilities.

The budget anticipates that such fees would generate revenues of $1,028,400 but would require the establishment of 14 clerical positions for fee collection at a cost of $323,200. Therefore, net anticipated revenue is estimated to be $705,200. We understand that the estimated revenue of $1,028,400 is based on a flat fee of $100 being received from 10,284 facilities. Actual revenue generated from charging fees for licensure will vary to the extent that (1) the number of facilities licensed varies from the projected number and (2) the fee schedule, which is not specified in the budget, generates revenue greater or less than $100 per facility per year.

Potential County Costs. The estimate of anticipated revenue does not reflect the potential cost of county staff, which may be required to collect fees for licensure. It is our understanding that the proposed imposition of fees for licensure would exempt foster family homes, family day care homes, and certain other facilities, from the fee requirement. During 1980–81, the Department of Social Services has assumed full responsibility for licensing the majority of community care facility categories, but counties have generally retained the responsibility to license foster family homes and family day care homes. Some counties have also retained responsibility for licensing and evaluating some facilities which would be subject to fee payments. To the extent that counties continue to license facilities which are required to pay fees, counties will incur additional administrative costs which will offset the current estimate of increased revenue.

Table 3
Department of Social Services
Proposed Position Changes for 1981–82

Division	*Existing Positions*	*Workload and Administrative Adjustments*	*Requested New Positions*	*Total Positions*	*Fiscal Effect of Requested New Positions*			
					General Fund	*Federal Funds*	*Reimburse-ments*	*Totals*
Executive	42.7	—	41.5	84.2	$112,635	$1,362,490	—	$1,475,125
Welfare program operations	136.0	—	30.0	166.0	292,958	674,838	—	967,796
Legal affairs	141.0	—	5.0	146.0	143,456	—	—	143,456
Adult and family services	253.0	−1.0	10.0	262.0	342,639	—	—	342,639
Administration	522.4	—	19.0	541.4	189,971	133,995	$39,011	362,977
Community care licensing	293.6	—	68.9	362.5	1,589,374	—	—	1,589,374
Planning and review	296.3	−3.0	21.0	314.3	286,296	−51,950	—	234,346
Disability evaluation	1,337.1	−0.5	—	1,336.6	—	—	—	—
Centralized delivery system	161.7	—	39.0	200.7	1,096,457	1,826,752	217,013	3,140,222
Temporary help	74.4	−21.5	8.0	60.9	−74,387	−74,387	—	−148,774
Totals	3,258.2	−26.0	242.4	3,474.6	$3,979,399	$3,871,738	$256,024	$8,107,161

Proposed New Positions

The department is proposing a total of 242.4 new positions for 1981–82, as shown in Table 3. Three budget requests account for 60 percent of the proposed new positions. The single largest request is for 56 positions for various divisions to work on the Statewide Public Assistance Network (SPAN) project pursuant to Chapter 282, Statutes of 1979 (AB 8). Of this number, 43.5 positions were authorized for a limited term and are scheduled to terminate on June 30, 1981. The budget proposes to continue these positions on a limited term basis during 1981–82. The department is also requesting (a) 51.9 positions to evaluate and license community care facilities and (b) 38.5 positions to administer the refugee assistance program. The remaining 96 positions are proposed for functions throughout the department.

IMPACT OF RECENT LEGISLATION

Cost-of-Living Increases for Welfare Recipients

Chapter 511, Statutes of 1980, provides that, effective January 1, 1981, annual cost-of-living increases on grants for various public assistance programs will be based on the change in the California Necessities Index rather than the Consumer Price Index.

The impact of this bill on specific welfare programs during 1980–81 and 1981–82 is as follows:

1. ***Aid to Families With Dependent Children (AFDC).*** For the first six months of fiscal year 1980–81 (July 1, 1980–Dec. 31, 1980), AFDC grants were increased by 15.48 percent over the amounts paid in 1979–80. This adjustment represents the percentage change in the Consumer Price Index for Los Angeles-Long Beach-Anaheim and San Francisco-Oakland between December 1978 and December 1979. Effective January 1, 1981, AFDC grants were reduced to levels that are 13 percent higher than grant amounts paid in 1979–80. The 13 percent adjustment represents the change in the California Necessities Index (CNI), as defined by Chapter 511, between December 1978 and December 1979. The act provides, however, that the maximum state reimbursement for cost-of-living increases for AFDC-Foster Care remains at 15.48 percent during all of 1980–81.

Table 4 shows the effect of Chapter 511 on the maximum grant level paid, for various family sizes, during 1980–81.

Table 4
Maximum Monthly AFDC Grant Levels
1979–80 and 1980–81

		1980–81	
Family Size	*1979–80*	*July–December 1980*	*January–June 1981*
1	$201	$232	$227
2	331	382	374
3	410	473	463
4	487	563	550

Beginning with the 1981–82 fiscal year, the statute requires that AFDC grants be adjusted annually based on the percentage change in the CNI during the 12-month period ending in the preceding December. Thus, the statute requires the cost-of-living adjustment for fiscal year 1981–82 to be based on the percentage

DEPARTMENT OF SOCIAL SERVICES—Continued

change in the CNI between December 1979 and December 1980.

2. ***Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program.*** During the first six months of 1980–81, SSI/SSP recipients received a cost-of-living increase based on the percentage change in the Consumer Price Index for Los Angeles-Long Beach-Anaheim and San Francisco-Oakland between December 1978 and December 1979. Although the percentage increase in the Consumer Price Index for this period was 15.48 percent, recipients actually received an 18 percent increase to their total SSI/SSP grant due to the methodology established in law in 1973 for calculating the SSI/SSP cost-of-living increase.

Effective January 1, 1981, Chapter 511 provided a cost-of-living adjustment based on the percentage change in the California Necessities Index. It also repealed the method of calculating SSI/SSP cost-of-living increases which resulted in grant adjustments that were larger than the change in the Consumer Price Index. As a result, SSI/SSP grants for the last six months of 1980–81 were reduced to levels that are 13 percent higher than grant amounts paid in 1979–80.

Table 5 shows the effect of Chapter 511 on the maximum SSI/SSP grant levels, for various categories of SSI/SSP recipients during 1980–81.

Table 5
Maximum Monthly SSI/SSP Grant Levels
1979–80 and 1980–81

		1980–81	
	1979–80	*July–December 1980*	*January–June 1981*
Aged/Disabled individual	$356	$420	$402
Aged/Disabled couple	660	773	746
Blind individual	399	471	451
Blind couple	776	905	877

Beginning with fiscal year 1981–82, Chapter 511 requires that cost-of-living adjustments be based on the December-to-December change in the California Necessities Index. In addition, the cost-of-living adjustments will be applied against the *total* SSI/SSP grant rather than just the SSP portion of the grant. The new methodology is similar to that used for calculating the AFDC cost-of-living adjustment, and will result in a grant increase which reflects the percentage change in the new California Necessities Index.

3. ***Aid to the Potentially Self-Supporting Blind (APSB) Program.*** Under Chapter 511, payment levels for the APSB program remain tied to those for the SSI/SSP program. As a result, APSB grants for the first six months of 1980–81 were based on a 15.48 percent change in the Consumer Price Index. For the last six months of 1980–81, APSB grants were reduced to levels that are 13 percent higher than grant amounts paid in 1979–80, to reflect the change in the California Necessities Index during 1979. The grants for an APSB recipient are those shown in Table 5 for a blind individual.

4. ***In-Home Supportive Services (IHSS) Program.*** Under Chapter 511, cost-of-living increases in the *maximum* allowable payments which individuals may receive for in-home supportive services are 15.48 percent in 1980–81, as determined by the percentage change in the Consumer Price Index. As a result, IHSS maximum grants increased from $664 in 1979–80 to $767 in 1980–81 for a severely impaired recipient, and from $460 to $532 for a nonseverely impaired IHSS recipient. Effective July 1, 1981, the cost-of-living adjustment will be based on the change in the California Necessities Index.

5. ***Fiscal Impact.*** Table 6 shows the fiscal impact of Chapter 511. Compared to the cost-of-living increases required under prior law, the act resulted in savings of $89.8 million to the General Fund and $14.4 million in federal funds in 1980–81.

Under current federal law, California is allowed to provide cash in lieu of food stamps to eligible SSI/SSP recipients so long as the state: (1) passes on the federal cost-of-living increase for the SSI grant and (2) provides a cost-of-living increase for the SSP grant pursuant to current state law. This provision of federal law allows the state to avoid the administrative costs which would occur if county welfare departments were required to distribute food stamps to SSI/SSP recipients.

Although the state changed its formula for calculating cost-of-living increases for SSI/SSP recipients, the federal government did not require the state and counties to administer a program to provide food stamps to eligible SSI/SSP recipients in the current year.

Medi-Cal costs decreased in the current year as a result of changing the AFDC cost-of-living adjustment from 15.48 to 13 percent. This is commonly referred to as the Medi-Cal Spin-off. As the AFDC standard increases, Medi-Cal recipients are allowed to retain more money for living expenses and consequently are required to spend less money on medical expenses. Conversely, as AFDC cost-of-living adjustments are reduced, recipients are required to spend more money on medical expenses under the Medi-Cal program, thus reducing the net cost to the state and federal government.

Table 6
Cost-of-Living Expenditures
Comparison of Prior Law Requirement
with Chapter 511
1980–81
(in millions)

Program	*Prior Law Requirement (15.5% July 1980-June 1981)*	*Chapter 511 (15.5% July-Dec '80) (13% Jan-Jun '81)*	*Difference*
AFDC	$186.4	$173.0	−$13.4
SSI/SSP	342.6	267.6	−75.0
APSB	0.2	0.2	—[a]
IHSS	3.4	3.4	-
Medi-Cal Spin-off	24.7	23.3	−1.4
Totals	$557.3	$467.5	−$89.8

[a] Chapter 511 resulted in a savings of $40,000 in the APSB program.

AFDC—Foster Care

Chapter 1166, Statutes of 1980, specifies the various conditions under which a child is eligible to receive financial assistance under the Aid to Families with Dependent Children–Foster Care (AFDC-FC) program. The act also requires the Department of Social Services to submit specified reports to the Legislature concerning foster care payments.

The major feature of the act is that it limits payments to children voluntarily placed in foster care. Beginning January 1, 1982, payments to children who are voluntarily placed in foster care on or after January 1, 1981, will be limited to six months. Under existing law, foster care payments for voluntary placements are not limited to a specified period of time.

This act will result in savings to the department and local governments as a result of:

1. Limiting grant payments to six months for children voluntarily placed in

DEPARTMENT OF SOCIAL SERVICES—Continued

foster care after January 1, 1981, and

2. Clarifying existing law concerning eligibility for foster care payments.

The Department of Social Services estimates that this act will result in General Fund savings of $957,500 in 1981–82.

While this act results in General Fund savings to the Department of Social Services, there will be increased state costs to the Departments of Developmental Services and Mental Health. Under the act's provisions, voluntary placements who are developmentally disabled or emotionally disturbed and unable to obtain a court-ordered placement after six months, would be shifted to regional centers and community mental health programs. Costs to these programs are undetermined, but potentially major, depending upon the number of children transferred to the Departments of Developmental Services and Mental Health.

TECHNICAL BUDGETING ISSUES

Contracts with the Health and Welfare Agency Overbudgeted

We recommend a reduction of $51,912 ($25,956 General Fund and $25,956 federal funds) overbudgeted for contracts with the Health and Welfare Agency.

The budget proposes $65,700 for two contracts with the Health and Welfare Agency. The contracts would reimburse the agency for the following: (1) $26,967 for part of the salary for one position located in the Governor's Office in Washington, D.C., and (2) $38,733 for the systems review unit in the Health and Welfare Agency. The systems review unit studies the efficiency and effectiveness of departmental programs overseen by the agency, and tries to identify overlaps in service delivery, funding sources and clients.

Our review of the Health and Welfare Agency's schedule of reimbursements found that the agency anticipates receiving $13,788, not $65,700, from the Department of Social Services during 1981–82. The $13,788 is for partial support of the one position in the Governor's Office in Washington. The agency is not scheduled to receive reimbursements from the department for support of the systems review unit because the Governor's Budget requests a direct appropriation of funds to the agency for this purpose.

For this reason, we recommend a reduction of $51,912 overbudgeted for DSS contracts with the Health and Welfare Agency.

Out-of-State Travel Overbudgeted

We recommend that funding for out-of-state travel be reduced to reflect the department's most recent actual experience, for a savings of $27,675 ($14,667 General Fund and $13,008 federal funds).

The budget requests $116,367 for out-of-state travel by Department of Social Services (DSS) employees. As Table 7 shows, such travel has been consistently overbudgeted since 1977–78.

Table 7
Department of Social Services
Out-of-State Travel Expenditures
1977–78 to 1979–80

	Budgeted	*Expended*	*Percent of Budget Spent*
1977–78	$65,236	$52,429	80.4%
1978–79	119,066	59,245	49.8
1979–80	123,666	69,953	56.6

Expenditures for out-of-state travel are intended to enable the department to communicate with other states and the federal government regarding income maintenance and social services programs. The department has not yet identified specific trips planned for 1981–82. As a result, DSS has estimated its budget year travel needs by increasing its 1980–81 budgeted amount ($100,714) by 7 percent and adding the anticipated cost of travel for new positions.

Given historical trends, our analysis indicates that a more reasonable methodology to estimate budget year needs is to (1) utilize the department's 1979–80 expenditure level, increased by 7 percent annually, as allowed by the Department of Finance's budget instructions and (2) add the cost of travel for new positions. This results in a 1981–82 out-of-state travel requirement of $88,692. To reflect actual experience, we therefore recommend a reduction of $27,675 ($14,667 General Fund and $13,008 federal funds).

Equipment Request Unjustified

We recommend a reduction in the funds proposed for unjustified new and replacement equipment, for a reduction of $220,312 consisting of $101,344 from the General Fund, $107,953 in federal funds, and $11,015 in reimbursements.

The budget requests $803,486 for purchase of major equipment, such as typewriters, tape recorders, and automobiles in 1981–82. Of this amount, $160,681 is proposed to replace equipment that is no longer functional due to age or excessive wear. An additional $582,599 is proposed for purchase of new major equipment. Table 8 summarizes the department's request.

Table 8
Department of Social Services
Request for Major Equipment
1981–82

New equipment	$582,599
Replacement equipment	160,681
Seven percent price increase	52,030
Equipment for proposed new positions	8,176
Total request	$803,486

Unjustified Items. Our analysis indicates that the need for several items included in the 1981–82 equipment request has not been established. Table 9 summarizes these items and the dollar amounts associated with each. A discussion of each component follows.

Table 9
Department of Social Services
Equipment Reductions Recommended by Legislative Analyst

Category	*Amount*
Typewriters (276)	$167,530
Replacement calculators (63)	16,632
Pickup truck with camper shell (1)	10,000
Other items	26,150
Total	$220,312

Typewriters. The department's request includes 209 replacement typewriters and 67 new ones, for a total request of 276 machines. The State Administrative Manual allows typewriters to be replaced after 10 years of use or when excessive wear is exhibited. Our review of the department's property inventory (exclusive of the Disability Evaluation Division) indicates that, as of December 1980, the

DEPARTMENT OF SOCIAL SERVICES—Continued

department has 522 typewriters which were acquired after June 30, 1972. Of this total, the department has 72 typewriters which are not assigned to particular units.

During 1980–81, the Department of Social Services has 434.2 authorized full-time clerical positions (exclusive of the Disability Evaluation Division). For the budget year, the department is proposing an additional 36.5 clerical positions for a total of 470.7 positions. Based on these data, we conclude that the department currently possesses 51 more typewriters less than 10 years old than it has full-time clerical staff to operate them. Our analysis also indicates the department may purchase additional typewriters for special needs with $21,445 appropriated in the 1980 Budget Act for typewriter purchases. Therefore, we cannot establish the need for additional typewriters and recommend that no funds for this purpose be appropriated in 1981–82 for a reduction of $167,530.

Replacement Calculators. The Department of Social Services' criteria for replacement of calculators is 10 years' use. The department's property inventory indicates that 73 calculators were acquired prior to June 30, 1972. Using the department's own standard, its request for 136 *replacement* calculators should be reduced by 63. The average cost of the replacement calculators requested is $264. Therefore, we recommend a reduction of $16,632 for calculator replacement.

Pickup Truck. Information provided by the department has not included specific justification for purchase of a new pickup truck listed in the equipment request. The department currently possesses three pickup trucks and two vans. In addition, the 1980 Budget Act provided $14,000 for two new pickup trucks. As of December 1980, neither of these trucks was in the department's property inventory. Without specific detailed justification of the need for an additional vehicle and assurance that funds budgeted for vehicles in 1980–81 will be expended for this purpose, we recommend that additional funds be deleted for the proposed pickup truck.

Other Items. Our review also has identified the following items in the department's 1981–82 request which duplicate equipment either requested in the current year or already available to the department: (1) a $1,300 calculator for the Affirmative Action Office, and (2) several items of microfilm equipment for the Community Care Licensing Division ($24,850). In view of this duplication, we recommend a reduction of $26,150.

Recommendation. Based on our review of the department's equipment schedule, we recommend a reduction of $220,312, consisting of $101,344 from the General Fund, $107,953 in federal funds, and $11,015 in reimbursements. The recommended reduction will leave the department with a budget for major equipment totaling $583,174, or 33.4 percent more than actual 1979–80 expenditures.

Attorney General Legal Services

We withhold recommendation on $2,542,973 proposed to reimburse the Attorney General for legal services, pending reconciliation by the Department of Finance of conflicting estimates of the anticipated cost for such services in 1981–82.

Our analysis has identified a discrepancy between the amount of legal services which the department is budgeted to obtain from the Attorney General and the amount of legal services which the Attorney General is budgeted to provide. While DSS proposes $2,542,973 for this purpose, we can identify only $2,286,146 in services in the Department of Justice's budget for DSS. For example, DSS proposes to expend $683,709 of the total $2,542,973 proposed to reimburse the Attorney General, for services related to (1) categorical aid, (2) cases related to the legal separation of children from their parents' custody so that adoption may occur, and (3) litigation involving residential care facilities. The Department of Justice indicates that 8,688 hours, or approximately $427,884 worth of attorney services, will be provided to the Department of Social Services for these three activities. To the extent that this discrepancy cannot be explained by anticipated workload, the department may be overbudgeting for Attorney General services.

We have identified similar inconsistencies in other departments' budgets and have requested that the Department of Finance reconcile these discrepancies by April 1, 1981. This request is discussed is our analysis of the Department of Justice's budget (Item 082-001-001). We therefore withhold recommendation on $2,542,973 ($1,169,768 General Fund, $1,246,057 in federal funds and $127,148 in reimbursements) proposed for Attorney General services until we can evaluate the department's proposed expenditures in light of the reconciled data from the Department of Finance.

Salary Savings Underestimated

We recommend salary savings be increased to reflect recent experience, for a reduction of $2,035,805 ($855,038 General Fund, $1,099,334 federal funds, and $81,433 reimbursements).

When budgeting for salaries and wages, agencies are required to recognize that salary levels will fluctuate and that not all authorized positions will be filled throughout the budget year. Savings in the cost of salaries and wages occur due to vacant positions, leaves of absences, delays in the filling or establishment of positions, turnover, and refilling positions at a lower salary than initially budgeted. To prevent overbudgeting, the State Administrative Manual requires each agency to include an estimate of salary savings as a percentage reduction to the gross salaries and wages request. The State Administrative Manual further requires that "the amount of savings should be estimated on the basis of the past year experience in administering the departmental hiring plan."

The Department of Social Services has budgeted $4,409,805, or 6.0 percent of salaries and wages, as salary savings in 1981–82. The department advises that this estimate is based on (1) 5 percent of 1981–82 base salaries and wages, (2) 10 percent of salaries and wages for some proposed new positions, and (3) adjustments to specific position requests to reflect anticipated vacancies. This estimate, however, does not reflect the actual experience of the department, as shown in Table 10.

Table 10
Department of Social Services Salary Savings
1977–78 to 1979–80

	Total Salaries and Wages Estimated at Midyear	*Estimated Salary Savings*		*Actual Total Salaries and Wages*	*Actual Salary Savings*[a]	
		Amount	*Percent*		*Amount*	*Percent*
1977–78	$50,623,218	$2,125,682	4.2%	$46,704,976	$3,918,242	7.7%
1978–79	50,327,527	1,270,982	2.5	46,369,028	3,958,499	7.9
1979–80	58,930,392	2,998,047	5.2	53,733,434	5,196,958	8.8

[a] Difference between total salaries and wages estimated at midyear and actual salaries and wages expended.

Table 10 shows that the actual salary savings rate has exceeded the estimated rate in each of the last three years. Moreover, the actual salary savings rates shown in Table 10 may understate the true amount of salary savings realized because they do not reflect salary savings that may have been used by the department to (1) establish unbudgeted positions administratively, or (2) allocate more funds to temporary help blankets than budgeted.

The average actual unspent salary savings percentage experienced by the Department of Social Services during the period 1977–78 to 1979–80 was 8.14 percent. Applying this average to the proposed salary and wages for 1981–82 results in an

DEPARTMENT OF SOCIAL SERVICES—Continued

estimate of salary savings for 1981–82 of $6,089,585. This amount is $1,591,526 higher than the $4,498,059 proposed by the department.

Because staff benefits are budgeted on the basis of authorized expenditures for salaries and wages the cost of these benefits will be overbudgeted to the extent salary savings are underbudgeted. To correct for this, we recommend a corresponding reduction in staff benefits, for an additional reduction of $444,279.

In order to reflect salary savings that are more in line with the department's actual experience, we recommend a total reduction of $2,035,805. This amount consists of $855,038 from the General Fund, $1,099,334 in federal funds, and $81,433 in reimbursements.

Use Unscheduled Reimbursements to Reduce General Fund Costs

We recommend adoption of Budget Bill language requiring that General Fund support for this item be reduced by the amount of unscheduled reimbursements received by the department.

The budget shows that the department will receive reimbursements totaling $5,893,542 in 1981–82. Most of the estimated reimbursements are from other state departments and agencies for services provided during the year. For example, the department estimates that it will receive $3,316,113 from the Department of Health Services for performing disability evaluations.

Our analysis indicates that reimbursements for the department may be underestimated for 1981–82. Our review of the department's budget documents found that historically the department has received reimbursements from various sources which were not scheduled in the budget. These reimbursements totaled $138,135 in 1978–79 and $151,413 in 1979–80. During the first five months of 1980–81, the department had received unscheduled reimbursements totaling $44,038. If this trend continues throughout the remainder of the year, the amount of unscheduled reimbursements in 1980–81 would total $105,691.

In developing the 1981–82 budget, the department did not build in an estimate for unscheduled reimbursements. The department maintains it cannot accurately estimate the amount of these reimbursements because the source of the reimbursements varies annually.

To the extent unscheduled reimbursements are received in the budget year, the department will be overbudgeted. Therefore, we recommend that Budget Bill language be adopted to require that the department's General Fund appropriation be reduced by the amount of unscheduled reimbursements received in 1981–82. We recommend adoption of the following language:

"Provided further, that funds appropriated by this item shall be reduced by the Department of Finance by the amount of unscheduled reimbursements made available for the purpose of this item."

DATA PROCESSING

Health and Welfare Agency Consolidated Data Center

We recommend that funds budgeted for the reimbursement of the Health and Welfare Agency Data Center be reduced to a level consistent with past expenditures to prevent overbudgeting, for a savings of $342,950, consisting of $188,623 from the General Fund, $150,898 in federal funds, and $3,429 in reimbursements.

The Governor's Budget includes $2,606,035 for reimbursements to consolidated data centers from the Department of Social Services for various data processing services. Of this amount, $1,053,950 is proposed to reimburse the Health and Welfare Data Center (HWDC) for data processing services related to the ongoing activities of the department.

Reimbursement of HWDC for Ongoing Activities. The proposed $1,053,950 for ongoing departmental activities is $218,950, or 26.2 percent, above the $835,000 included in the 1980 Budget Act for reimbursements to HWDC. The Department of Social Services anticipates that current year costs will total $909,000, or $74,000 above the amount budgeted for this activity.

The Supplemental Report of the 1980 Budget Act requires us to review the use of the HWDC by the Department of Social Services. In reviewing the information provided to us by the department, we encountered two problems. First, the backup information is not consistent with the budget. For example, in response to a request for the costs of computer services activities planned to be conducted by HWDC for DSS during 1981–82, the department provided us with a list of activities with costs exceeding the $1,053,950 proposed for these activities. As a result, we are not able to reconcile these anticipated costs with the proposed budget or with actual 1979–80 costs for these activities. Second, the information provided by the department is not complete. At the time this analysis was written, the department was unable to provide us with a comprehensive data processing plan, as required by the State Administrative Manual, for the budget year or subsequent years. The department advises, however, that such a plan will be developed by February 1981.

For these reasons, our review of the information provided to us by the department does not enable us to determine the department's need for funds to reimburse HWDC during the budget year. Instead, we have had to rely on past expenditure patterns in order to determine DSS's need for funds to reimburse HWDC for data processing services. Table 11 shows that (1) actual expenditures reported by the State Controller and HWDC from 1977–78 to 1979–80 are less than the past year actual expenditures reported by the Department of Social Services in the budget and (2) actual expenditures during the three-year period averaged 86 percent of budgeted funds.

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 11
Department of Social Services
Expenditures for Ongoing Services
From the Health and Welfare Agency Consolidated Data Center
1977–78 to 1980–81

	Budgeted Funds	*Expenditures Reported by DSS*	*Actual Expenditures*	*Percent of Budgeted Funds Actually Spent*
1977–78	$251,993	$251,993	$202,994	80.5%
1978–79	728,222	724,000	707,281	97.1
1979–80	800,000	800,000	651,723	81.5
1980–81	835,000	909,000[a]	—	—

[a] Estimate by Department of Social Services. Budgeted funds have been increased to this amount through a midyear adjustment of $74,000.

Price Increase Inappropriate. The department proposes expenditures of $1,053,950 in 1981–82 consisting of $985,000, identified as a base amount, plus $68,950 for a 7 percent price increase. The department has not provided information identifying the need for a $76,000 increase in its base amount over estimated 1980–81 expenditures of $909,000. In addition, the Director of HWDC advises that a general price increase is *not* planned for the budget year. Therefore, we have no basis to recommend the proposed increases of $144,950 for reimbursements to HWDC.

Current Year Reimbursements Overestimated. The department has consistently overestimated anticipated expenditures for HWDC services. The DSS projection of $909,000 for 1980–81 appears excessive because (1) actual expenditures for the first five months of 1980–81 were $20,000, or 7 percent below the DSS projected total for this period and (2) the DSS projection of reimbursements in the last six months of 1980–81 includes two months with estimated reimbursements exceeding $100,000. Reimbursements to HWDC exceeded $100,000 in only one out of 24 months during 1978–79 and 1979–80. The average monthly reimbursement over the period July 1978 to November 1980 was $56,771.

Our analysis of monthly reimbursements to HWDC from DSS indicates that reimbursements are higher in the last two months than in the first 10 months of the year. In order to project anticipated reimbursements for the last seven months of 1980–81, we projected each month separately based on actual expenditures during that month in 1978–79 and 1979–80. Based on this methodology, we project actual 1980–81 expenditures will be $711,000 rather than $909,000 anticipated by the department.

Recommendation. Based on (1) a consistent pattern of overbudgeting, (2) a lack of detailed information regarding budget year expenditure plans, and (3) our estimate that actual expenditures in the current year are likely to be less than the amount budgeted, we conclude that the department has overbudgeted its need for funds to reimburse HWDC. Because we have no analytical basis for projecting an increase in data processing costs during the budget year, we recommend that the amount budgeted for these costs be maintained at what we estimate to be the current year level ($711,000), for a reduction of $342,950 ($188,623 General Fund, $150,898 federal funds, and $3,429 reimbursements).

Data Processing Overbudgeted

We recommend deletion of funds budgeted for expiring contracts, for a reduction of $233,683 consisting of $128,526 from the General Fund, $102,820 in federal funds, and $2,337 reimbursements because existing departmental resources are adequate to meet workload.

In addition to the $2,606,035 requested for data processing services to be provided by the consolidated data centers, the budget proposes $283,446, all funds, for other data processing services to be supplied to the department in 1981–82. According to the State Administrative Manual, expenditures funded through the data processing category of operating expenses and equipment may include data processing personnel, equipment, supplies, and reimbursements to state agencies other than the consolidated data centers.

Historically, the Department of Social Services has used this funding category primarily to support interagency agreements and contracts with private data processing firms. During the three-year period 1978–79 to 1980–81, contracts with two private firms, account for 56 percent of total data processing expenditures. Both of these firms provided the department with programming assistance for specific time-limited projects. Both contracts will expire during 1980–81.

Our analysis indicates that the budget requests an excessive amount for data processing, for the following reasons: First, two expiring contracts for programming services are built into the request. Given the proposed addition of 10 programmer staff in 1981–82 to the 15 existing positions in the department, existing departmental resources appear to be adequate and appropriate to handle the programming needs of the department. Second, information supplied by the department indicates that the data processing request for supplies and equipment ($124,491) exceeds 1979–80 actual expenditures ($5,576) for this purpose by more than 2,000 percent.

Accordingly, we recommend that the amount budgeted for data procssing in 1981–82 be based on actual 1979–80 expenditures, less the cost of the two expiring contracts ($145,009 – $103,125 = $41,884). This amount should be increased by 7 percent for both 1980–81 and 1981–82 to include allowable price increaes ($41,884 × 1.07 × 1.07 = $49,762). On this basis, we recommend a reduction of $233,683 in data processing funds consisting of $128,526 from the General Fund, $102,820 in federal funds, and $2,337 in reimbursements.

Additional Data Processing Positions

We recommend adoption of Budget Bill language which requires that, before nine positions in the Data Processing Bureau are continued beyond December 31, 1981, the Department of Finance notify the Legislature and document the savings resulting from implementing new electronic data processing systems.

The budget proposes $177,076 for 10 additional positions in the Data Processing Bureau. Nine of the positions will develop and implement new electronic data processing (EDP) systems to support departmental programs, and will be limited to June 30, 1982.

The budget includes only six months funding for the nine positions. Any funding for the positions beyond December 31, 1981, will have to come from savings resulting from the implementation of new EDP systems by the department.

We believe the Legislature should be notified of the savings used to continue the positions beyond December 31, 1981. Therefore, we recommend the adoption of the following Budget Bill language requiring that, prior to continuing the nine EDP positions the Director of Finance document the savings resulting from new EDP systems:

"Provided that authorization for expenditures to continue nine new data processing positions beyond December 31, 1981 shall become effective no sooner than 30 days after notification in writing by the Director of Finance to the Joint

DEPARTMENT OF SOCIAL SERVICES—Continued

Legislative Budget Committee documenting (1) the amount of savings achieved by the department, (2) the new data processing systems which generated the savings, and (3) how the new data processing systems produced the savings."

Temporary Help Funds to Train Computer Programmers

We recommend a reduction of $119,232 ($65,578 General Fund and $53,654 federal funds) budgeted in temporary help funds to provide training to computer programmers because the proposal represents a piecemeal and fragmented approach to a statewide problem.

The budget proposes $119,232 in temporary help funds to provide training to entry level computer programmers during 1981–82. The department plans to establish two six-month training periods because it is experiencing difficulties in recruiting and retaining skilled electronic data processing (EDP) personnel. Eight programmers would be trained during each six-month training session. The department proposes to fund the training program from anticipated salary savings resulting from vacancies in the Data Processing Bureau during the budget year.

We have the following concerns with the department's proposal:

First, the department's proposal attempts to address what is a statewide problem on a piecemeal basis. Most state agencies are currently experiencing difficulties in recruiting and retaining qualified EDP personnel. In order to address this and other statewide EDP issues, the Director of Finance created the California Information Technology Advisory Board (CITAB) in May 1980. As a result of CITAB's review, the following actions are being taken to deal with the problem of recruiting EDP personnel for state government: (a) testing to fill programmer positions will be done on an open and continuous basis, (b) modifications are being made in the recruitment process to minimize delays in hiring personnel, (c) a survey is being taken to determine the comparability of state and private sector salaries for EDP personnel and (d) the appropriate ratio of EDP supervisors to staff is being reviewed. The approach to the shortage of EDP personnel proposed by the department also warrants consideration by CITAB.

Second, it would provide the Department of Social Services with a recruiting procedure unavailable to other departments. It is our understanding that other departments of comparable size have not been provided funds through temporary help to meet their EDP training needs.

Third, if a training program for entry level programmers is needed, it should be operated on a statewide, rather than departmental, basis. Departments should use the state EDP education program in the Department of General Services to meet their training needs in this area. Otherwise, each department will develop duplicative training programs which will result in additional General Fund costs.

Fourth, the proposal does not reflect sound budgeting policy. Departments should not fund training programs by increasing temporary help funds in *anticipation* that excess salary savings will occur.

For these reasons, we recommend deletion of the $119,232 budgeted in temporary help to train computer programmers.

Foster Care Management Information System

We withhold recommendation on $500,000 in federal funds proposed for a contract with a private vendor to develop and implement an automated foster care management information system until information required by the State Administrative Manual has been submitted to the Legislature.

The budget proposes the expenditure of $500,000 in federal funds for the development and implementation of an automated foster care information system during 1981–82. This system will comply with the requirements of the Federal

Adoption Assistance and Child Welfare Act of 1980. (We discuss the act in more detail later in this analysis.) Supporting material also states that $250,000 in federal funds will be spent for this purpose during the current year. At the time this analysis was prepared, the Legislature had not received notification that the department had been authorized to expend these unbudgeted federal funds.

Our analysis of this proposal notes the following deficiencies:

Required Feasibility Study Report Not Prepared. The State Administrative Manual requires departments to prepare a feasibility study report (FSR) on major data processing activities. Without such a report, the Legislature is unable to determine what alternatives were considered for the development of the proposed system and why a private contractor is preferable to state data processing resources. In addition, the Legislature has no basis upon which to assess the progress of such a system without the time schedule routinely included in a feasibility study report. The department advises that a feasibility study report on this system will be developed and approved by the state Office of Information Technology by February 9, 1981. (This appears to be an unusually short turn-around time for an FSR.)

Proposal Not Coordinated with Other Requirements of Federal Law. The Adoption Assistance and Child Welfare Act of 1980 (PL 96-272) allows the state to obtain additional federal funds if specific management information system components are implemented in conjunction with a series of other requirements. The proposed management information system, by itself, will not fulfill federal requirements for additional funding. For example, the inventory of children in foster care required by Chapter 1229, Statutes of 1980, must be conducted in close coordination with the development of the federally mandated management information system if additional federal funds are to be obtained.

Because a feasibility study report has not been prepared and because there is no specific estimate of the costs of this system, we withhold recommendation on this proposal. We recommend that the Department of Social Services submit to the Legislature, prior to budget hearings, a feasibility study report as required by Section 4920 et. seq., of the State Administrative Manual, which includes (1) an analysis of the information requirements necessary to meet state and federal objectives, (2) a description of the problems that must be overcome to meet these requirements, (3) an analysis of each of the alternatives available, including (a) utilization of existing reporting formats and systems and (b) development of a new information system using state-owned resources, (4) a detailed cost estimate for each of the alternatives considered, (5) a discussion of why the chosen alternative was selected, (6) a detailed implementation plan, and (7) an analysis of how the proposed system will interface with (a) the Statewide Public Assistance Network and (b) other requirements of PL 96-272.

STATEWIDE PUBLIC ASSISTANCE NETWORK PROJECT

AB 8 requires the Department of Social Services to implement a centralized delivery system (CDS) in all counties by July 1, 1984. The system, which is known as the Statewide Public Assistance Network (SPAN) project, will assist in the delivery of benefits to participants in the following programs: Aid to Families with Dependent Children (AFDC); Food Stamps; Medi-Cal; Aid for the Adoption of Children; Special Adult Programs, and to the extent feasible, Social Services and Child Support Enforcement.

Table 12 shows the number of positions and expenditures committed to the SPAN project during the past, current, and budget years. The budget proposes 140 positions and total expenditures of $6,333,820 for the SPAN project in 1981–82. Of this amount, General Fund expenditures are proposed at $2,420,442, an increase of $425,478, or 21.3 percent, over estimated current year expenditures.

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 12
SPAN Project Positions and Expenditures
1979–80 to 1981–82

	Actual 1979–80	*Estimated 1980–81*	*Proposed 1981–82*
Positions–Location by Division	41.8	136.5	140
Centralized Delivery System	—	(107.0)	(113.0)
Welfare Program Operations	(36.2)	(24.0)	(21.5)
Adult and Family Services	(3.9)	(3.0)	(2.0)
Administration	-	(2.5)	(3.5)
Medi-Cal	(1.7)	-	-
Total Expenditures	$1,454,275	$4,158,281	$6,333,820
General Fund	*758,201*	*1,994,964*	*2,420,442*
Federal funds	*696,074*	*2,163,317*	*3,913,378*

Of the 140 positions proposed for 1981–82, 128.5 were authorized previously by the Legislature. The department proposes to continue these positions in the budget year and to add 11.5 new positions. Of the 140 positions proposed for the SPAN project in 1981–82, 47 are permanent and 93 are limited term.

Effective October 1980, the federal share of costs for developing the food stamp portion of the project increased from 50 percent to 75 percent. The department anticipates that the federal share of costs for developing the AFDC component will increase from 50 percent to 90 percent, beginning July 1, 1981, pursuant to PL 96-265. That act provides for 90 percent federal financial participation for the planning, design, development and installation of a statewide EDP system for the AFDC program.

Consultant and Professional Services Contracts

We recommend a reduction of $220,000 ($74,800 General Fund and $145,200 federal funds) for consultant and professional services contracts because state staff are available to perform these activities.

The budget proposes $320,000 for consultant and professional services contracts for the SPAN project in 1981–82. (This amount excludes $60,902 proposed for an external affairs manager which is discussed elsewhere.) The department is requesting funds for (a) the design and implementation of a computer data base; (b) the design of a computer facilities, general systems, and a data communications network; and (c) assistance in adopting county or private vendor-developed software to SPAN usage.

Based on our analysis, we recommend the following reductions:

Double Budgeting. Our review found that the department had budgeted $40,000 for the same consultant and professional services in two separate budget proposals. Therefore, we recommend a reduction of $40,000 to correct double budgeting.

State Staff Are Available. Our analysis indicates that the department has adequate personnel resources available to perform several of the functions for which contract funds are requested. For example, the department requested, and the Legislature authorized, the establishment of 107 SPAN staff for the current year. Of this number, 34 are computer programmers, 29 are data processing analysts and 16 are data processing managers. Some of these positions are organized into several development specialty areas, such as network, data base and general systems design, in which the proposed consulting services would be provided. Because the department already has been authorized staff to perform the activities, we recommend a reduction of $180,000 in funds budgeted for consultant and professional services.

SPAN In-State Travel Overbudgeted

We recommend a reduction of $99,000 ($33,660 General Fund and $65,340 federal funds) overbudgeted for in-state travel related to the Statewide Public Assistance Network (SPAN) project.

The budget proposes an additional $198,000 for in-state travel for the SPAN project during 1981–82. (This amount excludes travel funds for the external affairs manager which is discussed elsewhere.) The components of this amount and our recommendations are as follows:

1. The department is requesting $138,000 for travel related to the pilot project and utilization of county staff in Sacramento. Of this amount, $69,000 is for travel and per diem costs for state personnel to travel to pilot county sites to train county staff. It also includes funds for pilot county staff to travel to Sacramento. The remaining $69,000 is for travel costs and per diem for various county staff to travel to Sacramento to provide assistance to state personnel in writing specifications, programming and testing the SPAN system.

We recommend deletion of $69,000 budgeted for travel of state and county staff related to the SPAN project because this amount has been built into the department's budget base for 1981–82. The Legislature approved approximately $99,414 for the travel expenses of permanent SPAN staff in 1980–81. The 1981–82 budget includes these funds plus a 7 percent price increase, so that $106,373 will be available to the department for this travel. In addition, our review of departmental budget documents found that the estimated cost for in-state travel was based on conversion activities in 10 counties during 1981–82. Discussions with departmental staff, however, have suggested that no more than three counties will participate in the pilot project.

2. The department is requesting $60,000 for the per diem and travel costs of various advisory committees which provide advice and recommendations to the department on the SPAN project. Actual expenditures to date for these committees total $5,758. The department states that the amount of claims paid to date is small because a number of claims have not yet been submitted to or processed by the department. Based on the actual expenditure data, however, we have no basis upon which to recommend approval of the full $60,000. We therefore recommend a reduction of $30,000 budgeted for in-state travel for the various advisory committees.

SPAN Training Funds Overbudgeted

We recommend a reduction of $40,108 ($13,637 General Fund and $26,471 federal funds) overbudgeted for training of various SPAN staff.

The budget proposes an additional $54,387 for training various state staff working on the SPAN project during 1981–82. The training is designed for data processing programmers and managers.

Our analysis indicates that funds budgeted for training should be reduced for the following reasons:

First, the amount of resources requested for training is overbudgeted to the extent that it does not take into account funds previously authorized by the Legislature. During hearings on the 1980 Budget Bill, the Legislature approved $37,484 for training SPAN positions in 1980–81. The 1981–82 budget includes these funds, plus a 7 percent price increase, for a total of $40,108.

Second, our review of the department's justification for the additional funds found that several of the proposed training programs were identical or similar to training programs for which the department has been provided funds in the

DEPARTMENT OF SOCIAL SERVICES—Continued

current year.

Third, the department has indicated that not all staff will receive training. Rather, training will be provided on an as-needed basis, depending on the individual requirements of each staff member.

Fourth, the department has indicated that it will make every effort to recruit experienced staff in order to minimize training.

For the above reasons, we recommend a reduction of $40,108 budgeted for training.

External Affairs Manager—SPAN Project

We recommend:

1. Deletion of $60,902 ($20,707 General Fund and $40,195 federal funds) in contractual services budgeted for an external affairs manager because county advice and recommendations are available to the department.

2. Deletion of $37,800 ($12,852 General Fund and $24,948 federal funds) budgeted for travel by an external affairs manager.

The 1980 Budget Act included funds for a staff services manager III position for the External Affairs Branch of the Centralized Delivery System Division. The External Affairs Branch is responsible for ensuring county input in the design and implementation of the SPAN project. The estimated cost of the position in 1980–81 was $42,800. The department deleted the position, however, and contracted with San Diego County Department of Public Welfare for the services of one of its employees. The cost of the contract in the current year is $55,365. The department proposes 1981–82 expenditures totaling $98,702 ($60,902 in contractual services and $37,800 for travel and per diem costs) to continue the external affairs manager.

Our analysis suggests that the proposed expenditures for the external affairs manager should be deleted for the following reasons:

1. *County Input Available Through Advisory Committees.* During the current fiscal year, the department has established five advisory committees representing the counties which provide advice and recommendations to the department on the SPAN project. The committees include the (1) California Welfare Directors Association, Management Policy Review Committee, (2) District Attorney Technical Advisory Committee, (3) Data Processors Technical Advisory Committee, (4) Centralized Delivery System (CDS) Advisory Council, and (5) SPAN Fiscal Impact Task Force.

2. *County Personnel Are Directly Involved in SPAN Development.* From May through mid-July 1980, 15 county welfare department staff from 10 counties worked with state staff in Sacramento on the system/program requirements report for SPAN. During November and December 1980, two county staff personnel worked with the state SPAN Design Team. Finally, the department has indicated that at least six county staff will be located in Sacramento and will work with state staff during 1981–82 on various aspects of SPAN development.

Because the department will have access to extensive county advice and recommendations on the SPAN project through advisory committees and county staff located in Sacramento, we do not find a need for an external affairs manager and recommend that funds budgeted for this position be deleted.

SPAN Feasibility Study Report (FSR)

We recommend that the department submit a report to the Legislature by May 1, 1981 which identifies county recommendations concerning the feasibility study report and the department's response to the recommendations.

The department has scheduled release of the feasibility study report (FSR) on the SPAN project for January 31, 1981. In addition, the department is scheduled to issue a supplemental report on May 1, 1981, which identifies the fiscal impact of SPAN on a county-by-county basis.

The department states that it will hold three one-day workshops throughout the state during February 1981 in order to obtain comments and recommendations on the feasibility study. In order that the Legislature may monitor the development of the system, we recommend that the department submit a report to the Legislature by May 1, 1981 listing the recommendations of counties concerning the feasibility study and the department's response.

SPAN Pilot Project

We withhold recommendation on $1,676,617 ($561,645 General Fund, $899,730 federal funds and $215,242 reimbursements) budgeted for the SPAN pilot project and other developmental activities, pending receipt of the feasibility study and a report describing the proposed operation of the pilot project.

The budget proposes $1,676,617 for personal services and equipment for operation of the pilot project and other SPAN-related development activities. Of this amount, $796,000 is for computer equipment, $429,977 is for personnel, and $310,000 is for an interagency agreement with the Health and Welfare Agency Consolidated Data Center. The personnel costs are for 19 computer operators and 6 data processing staff.

The department has scheduled field testing of the SPAN system, in selected pilot counties, starting in October 1981. The pilot test will last 15 months, until January 1, 1983. During this period, state and county staff will test the functions to be performed by SPAN, and train county eligibility and social worker staff in SPAN procedures. To date, 16 counties have volunteered to participate in the pilot project. The department indicates that the pilot counties will be selected by mid-February 1981.

We withhold recommendation on funds budgeted for the pilot project and SPAN development activities pending receipt of the feasibility study report and a document describing the pilot project.

1. *The Feasibility Study Report (FSR) Has Not Been Issued.* The State Administrative Manual (SAM) and Control Section 4 of the Budget Act require that a feasibility study report be prepared prior to the expenditure of funds for EDP projects of this magnitude. SAM requires the report to (1) define the requirements of the system being examined, (2) identify alternative ways of meeting those requirements, including a cost/benefit analysis, and (3) identify an implementation schedule for the proposed solution.

The department had not issued the feasibility study for the SPAN project at the time this analysis was written. The FSR is scheduled to be released on January 31, 1981. Until we have reviewed the proposed alternatives and implementation schedule contained in the FSR, we are unable to determine the number of personnel and computer equipment necessary for developmental activities related to SPAN, including the pilot project.

2. *The Legislature Needs a Document Describing the Pilot Project.* The department has not yet issued a document describing the operation of the pilot project. So that the Legislature can evaluate the department's request, we recommend that the department submit a report to the Legislature by April 1, 1981, describing the proposed pilot project. The report should contain the following: (1) an identification of the pilot counties, (2) an implementation schedule, (3) a description of the sequence in which functions will be assumed by the pilot counties, (for example, will the system be completely installed in one county before it is implemented in a second pilot county, or will one function be implemented in the first county and then put in place in a second county?), (4) quantifiable

DEPARTMENT OF SOCIAL SERVICES—Continued

performance criteria for evaluating the pilot, (5) a statement as to whether the pilot counties will be held harmless for AFDC error rates and if so, how such a hold harmless provision will be administered and (6) a statement as to whether the pilot counties will be held harmless for administrative costs under the department's cost control plan and if so, how such a hold harmless provision will be administered.

REFUGEE PROGRAMS

The Federal Comprehensive Refugee Act of 1980 (PL 96-212) was enacted in March 1980. This law (1) establishes annual quotas for refugee resettlement in the nation, (2) imposes, effective April 1981, a three-year limit on 100 percent federal funding for the cost of providing special refugee cash assistance to individual refugees, (3) requires the states to submit plans for the provision of cash assistance and services to refugees, (4) expands the scope of the refugee program to include services to individuals from all nations, provided they meet specified criteria, and (5) authorizes a specific dollar limitation on federal support for social services to refugees. The Department of Social Services is the state agency designated to receive federal funds for the administration of social services and cash assistance to refugees.

Refugees in California

The federal government has established national quotas on the number of refugees entering the United States. The quota for federal fiscal year 1981 is 217,000.

Estimating the refugee population in California is extremely difficult because (1) it is difficult to track refugees who move from one state to another, and (2) there is a general lack of information at the federal level regarding the number of refugees assigned to specific states. If present trends continue, however, a large number of these new refugees will settle in California.

According to the Population Research Unit of the Department of Finance, approximately 153,000 Indochinese refugees *resided* in California in October 1980, an increase of 55,000 over the estimated 98,000 in the state in December 1979. Based on the Department of Finance estimate and the total number of Indochinese refugees in the nation, it would appear that approximately 35 percent of all Indochinese refugees in the country reside in California.

In addition to Indochinese refugees, California has experienced influxes of refugees from Cuba and other nations. The state has also begun to experience an immigration of Cuban/Haitian entrants who have not been granted legal refugee status under the Comprehensive Refugee Act of 1980. Because these individuals have not been declared refugees, they are not entitled to the benefits outlined by the act for other new arrivals. Cuban/Haitian entrants may, however, receive similar assistance under the provisions of the federal Refugee Education Assistance Act of 1980. The federal Department of Health and Human Services reports that 4,700 Cuban refugees have been settled in California during 1980. Reliable estimates of the numbers of other refugees and Cuban/Haitian entrants in the state have not been developed.

Refugee Assistance Programs Administered by DSS

Pursuant to PL 96-212, California provides cash assistance, medical assistance, and social services to refugees. The Department of Social Services supervises the provision of cash assistance. DSS also administers the delivery of social services programs for refugees through (1) interagency and purchase-of-service agreements and (2) allocations to county welfare departments.

The Department of Social Services estimates 109,580 and 152,297 refugees will *receive cash assistance* during 1980–81 and 1981–82, respectively. The estimated 1980–81 caseload is an increase of 55,013 persons, or 100.8 percent, over the actual 1979–80 caseload. This anticipated increase is due to (1) expansion of the refugee assistance program to include refugees of other nationalities, and (2) continued influx of Indochinese refugees at the rate of 14,000 per month *nationwide*. Table 13 displays the estimated caseloads from 1979–80 to 1981–82 for each cash assistance program.

Table 13
California Refugee Resettlement Program
Estimated Average Monthly Cash Assistance Caseload
1979–80 to 1980–81 [a]

	Actual 1979–80 [b]	*Estimated 1980–81*	*Estimated 1981–82*
AFDC	29,564	61,164	85,540
SSI/SSP	2,395	4,566	6,452
Nonfederal AFDC [c]	—	370	388
Refugee cash assistance	22,608	41,614	57,772
General relief	—	1,866	2,145
Off aid [d]	—	(1,706)	(2,259)
Total Cash Assistance	54,567	109,580	152,297

[a] Source: Department of Social Services. No caseload estimates are available for the number of refugees receiving social services from private contractors and county welfare departments.
[b] 1979–80 data include Indochinese refugees only.
[c] These individuals do not meet federal eligibility requirements for the AFDC program but are eligible for the state-only program. In 1979–80 all refugees were eligible for federal refugee cash assistance, and thus none received state-only AFDC.
[d] This category includes individuals who, after three years in the country, are not eligible for cash assistance on the basis of income and are therefore terminated from aid. This provision of federal law was not effective in 1979–80.

Fiscal Impact

As a result of PL 96-212, a greater number of individuals are eligible for refugee services and cash assistance. In addition, because of the three-year limitation on individual eligibility for refugee cash assistance, a steadly increasing portion of these refugees will no longer be eligibile for income maintenance aid which has been 100 percent federally funded. Some of these individuals will become eligible for and receive aid through state and local cash assistance programs, while others will no longer receive any cash assistance. Table 14 shows the estimated expenditures required for cash assistance and social services to refugees in 1980–81 and 1981–82.

Refugee Assistance Staffing

We recommend deletion of 19 positions proposed to adminster refugee programs because workload is overestimated and the new positions would duplicate functions performed by existing staff, for a savings of $657,041 in federal funds.

The budget proposes $1,355,790 in federal funds to add 38.5 new positions to supervise the delivery of social services and cash assistance to refugees. This proposal includes $161,319 to reimburse the Health and Welfare Agency for four positions in the agency's Office of Refugee Affairs. The positions established in the agency are discussed in our analysis of Item 053.

Table 14
California Refugee Resettlement Program [a]
Estimated Expenditures—All Funds
1980–81 and 1981–82
(in millions)

Program Category	1980–81 Federal	1980–81 State	1980–81 County	1980–81 Total	1981–82 Federal	1981–82 State	1981–82 County	1981–82 Total	Difference Federal	Difference State	Difference County	Difference Total
Local Assistance												
AFDC	$90.8	$4.1	$0.5	$95.4	$136.8	$9.5	$1.1	$147.4	$46.0	$5.4	$0.6	$52.0
SSI/SSP	21.7	0.7	—	22.4	27.7	3.3	—	31.0	6.0	2.6	—	8.6
Refugee cash assistance	74.9	—	—	74.9	103.0	—	—	103.0	28.1	—	—	28.1
General relief	—	—	(1.9)	(1.9)	(0.2)	—	(4.7)	(5.0)	(0.2)	—	(2.8)	(3.0)
Subtotals	$187.4	$4.8	$0.5	$192.7	$267.5	$12.8	$1.1	$281.4	$80.1	$8.0	$0.6	$88.7
State Administration												
AFDC	$8.4	$0.1	$0.1	$8.6	$11.8	$0.4	$0.4	$12.6	$3.4	$0.3	$0.3	$4.0
Refugee cash assistance	8.6	—	—	8.6	10.9	—	—	10.9	2.3	—	—	2.3
Social Services												
Contracts	24.3	—	—	24.3	40.5	—	—	40.5	16.2	—	—	16.2
County welfare departments	6.6	—	—	6.6	9.4	—	—	9.4	2.8	—	—	2.8
State support	2.8	—	—	2.8	3.6	—	—	3.6	0.8	—	—	0.8
General relief	—	—	(0.1)	(0.1)	(0.1)	—	(0.2)	(0.3)	(0.1)	—	(0.1)	(0.2)
Subtotals	$50.7	$0.1	$0.1	$50.9	$76.2	$0.4	$0.4	$77.0	$25.5	$0.3	$0.3	$26.1
Totals	$238.1	$4.9	$0.6	$243.6	$343.7	$13.2	$1.5	$358.4	$105.6	$8.3	$0.9	$114.8

[a] Source: Department of Social Services. Does not include the costs of medical assistance provided by the Department of Health Services.

Of the total DSS request, 37.5 positions would be located in the Office of Refugee Services, created July 1, 1980, and the remaining position is proposed for the Accounting and Systems Bureau. The Office of Refugee Services (ORS) consists of three units: management, program monitoring and fiscal monitoring. The Legislature authorized 26 positions in the 1980 Budget Act for refugee programs. ORS absorbed 16 of the positions when it was created. The remaining 10 positions are assigned to other units of the department.

Section 28 Letter. In a letter dated December 30, 1980, submitted pursuant to Section 28 of the 1980 Budget Act, the Director of Finance requested a waiver of the 30-day waiting period so that the Department of Social Services could expend $470,199 to establish 32 of the proposed 38.5 additional positions during the current year.

In response to the December 30 letter, the Chairman of the Joint Legislative Budget Committee requested that the Director of Finance approve 11 of the 32 proposed positions ($224,437). He recommended that the remaining 21 positions not be authorized at this time because of (1) inappropriate workload projections and (2) a concern that the Legislature should have the opportunity to review potential duplication between the requested positions and existing staff.

Federal Funds Uncertain. Our analysis indicates that federal officials have not formally approved the specific funding level proposed for the administration of California's refugee resettlement program, and future federal appropriations may restrict the use of refugee program funds for administrative costs. In addition, the federal 1982 appropriation level for social services to refugees is lower than that anticipated by the budget. Because of this uncertainty over the amount of federal funds to support the administration of this program and to fund contracts, the General Fund may be faced with potentially significant funding demands in future years.

Additional Workload Has Not Been Justified. The budget proposes to utilize 33 of the 64.5 new and existing positions primarily for on-site monitoring of public and private agencies which contract with DSS to provide social services to refugees. The department is proposing to continue and expand a service delivery network for refugees which is separate from the established network serving nonrefugee clients. The staffing request is based on estimates of 80 and 90 contracts with private agencies in 1980–81 and 1981–82, respectively. In the October 1979 to September 1980 contract year, approximately 40 private agencies contracted with DSS for this purpose. In the current contract cycle, there are 65 such agencies, rather than the 80 on which the budget proposal is based.

The department advises that 99 percent of all refugees served by the resettlement programs reside in 15 major concentrations in the state. These refugees may receive services from county welfare departments, local school districts, and community colleges, in addition to the private provider agencies. Consequently, it is not clear that any new contracts are needed to provide services to refugees beyond the 65 provider agencies now under contract in 1980–81. Without documentation that 25 additional contracts (an increase of 38 percent) are needed, we must conclude that the staffing request is excessive.

Excessive On-Site Visits. In addition, the proposal includes sufficient program monitoring staff to conduct on-site visits to each contractor every six weeks. Federal guidelines for administration of refugee programs require "close monitoring of all aspects" of the refugee services program, but are silent on the frequency of visits. The state plan, which DSS submitted to the federal government in compliance with PL 96-212, calls for on-site program and fiscal monitoring visits at least quarterly. No information has been presented to justify visits on a more frequent basis than that identified in the state plan. Hence, we have no analytical basis to recommend approval of program monitoring staff in excess of the number required to do the quarterly visits.

DEPARTMENT OF SOCIAL SERVICES—Continued

Monitoring of Other State Agencies. As the single state agency designated to receive federal funds, the Department of Social Services is ultimately responsible for the administration of all refugee programs. In order to carry out this responsibility, the Governor's proposal contains staff in DSS to monitor the activities of subcontractors of the Departments of Education and Mental Health. Our analysis indicates that this activity is not specifically required by federal law and would result in duplication of effort between DSS and the respective departments.

Duplicative Manager Positions Proposed. The staffing proposal includes three staff services manager (SSM) II and four SSM I positions for 1981–82. More than 30 percent of the total workload proposed for the SSM II positions involves conducting visits to contractors and other local organizations. Workload for the SSM I positions includes time to perform visits to these same organizations. Our analysis has identified additional duplication of effort between these positions because both manager classifications would review the same reports and respond to inquiries from contractors.

Duplication of Existing Departmental Functions. DSS proposes that program management and fiscal staff would each conduct separate reviews of county welfare department refugee programs. Our analysis indicates, however, that staff in the department's Welfare Program Operations and Adult and Family Services Divisions will continue to review the program activities of county welfare departments, including those activities involving refugees. In addition, other functions proposed for the new staff appear to duplicate activities currently assigned to the translation unit of the Planning and Review Division.

Existing Staff Not Utilized for Refugee Programs. In our review of existing staff initially authorized by the 1979 Budget Act to administer refugee programs, we were unable to identify the functions of one position located in the Systems and Policy Branch of the Adult and Family Services Division. This position should be utilized for refugee resettlement programs, consistent with legislative action, before any additional positions are authorized for this purpose.

SPAN Positions Limited to June 30, 1982. Our review of the positions requested for refugee resettlement indicates that one Associate Governmental Program Analyst and one-half clerical position are proposed to provide program input to the SPAN project. Therefore, it is our understanding that these positions are limited to June 30, 1982.

Recommendation. We recommend deletion of (1) 18 proposed new positions ($629,911) to eliminate inappropriate workload and duplication and (2) funding for one new position ($27,131) to allow for the redirection of staff authorized for refugee programs but involved in unidentified functions, for a total reduction of $657,041 in federal funds. We recommend approval of 20.5 proposed new staff and $537,430 in federal funds.

Table 15 summarizes the existing and proposed refugee program staff in the department and identifies the positions which our analysis indicates are justified. Our recommended staffing level of 45.5 total positions is based on (1) the time required for individual tasks, as identified in the department's proposal, and (2) adjustments to workload projections based on the problems identified in our review.

STAFFING LEVELS

Fair Hearing Officers Overbudgeted

We recommend a deletion of nine fair hearing officers due to overbudgeting (five staff counsel I and four review officer II positions), for a total savings of $416,138 ($220,554 General Fund, $158,132 federal funds and $37,452 reimbursements).

Background. Welfare recipients have the right to appeal decisions by county welfare departments which they believe adversely affect their entitlements to

Table 15
Summary of Position Request
Department of Social Services
Refugee Resettlement Program
1981–82

Organization	*Existing Legislatively-Authorized Positions*	*New Positions Requested*	*Total Existing and Proposed Positions*	*LAO Recommended Total Staff*	*Total Recommended Reduction*	*LAO Recommended New Staff*
Office of Refugee Services						
Chief	1	1	2	2	—	1
Fiscal monitoring of contracts	5	12	17	12	−5	7
Program monitoring of contracts and public agencies	5	12	17	13	−4	8
Management	5	12.5	17.5	8.5	−9	3.5
Subtotals	16	37.5	53.5	35.5	−18	19.5
Other DSS Units						
Operations, assessments, and audits	3	—	3	3	—	—
Statistical services	3	—	3	3	—	—
Contracts	1	—	1	1	—	—
Public inquiry and response	1	—	1	1	—	—
Accounting and systems	—	1	1	1	—	1
Adult and family services	2	—	2	1	−1	−1
Subtotals	10	1	11	10	−1	—
Totals	26	38.5	64.5	45.5	−19	19.5

assistance. Typically, a fair hearing is requested when a county action results in the denial, reduction or termination of assistance or services. The Department of Social Services' Office of Chief Referee is responsible for conducting administrative hearings to determine the fairness of decisions made by county welfare departments.

The appropriate workload standard for fair hearing officers was an issue during legislative hearings on the department's budget for 1980–81. As a result, the Legislature deleted three hearing officer positions. The Legislature also adopted language in the Supplemental Report of the 1980 Budget Act requiring the Department of Finance to evaluate the workload standard for fair hearing officers.

Department of Finance Report. The Department of Finance report, submitted to the Legislature in December 1980, concluded that the appropriate workload standard for fair hearing officers was 194 cases per year. In other words, hearing officers should be able to hear and write an average of 194 cases annually. This productivity standard takes into consideration the number of hearing days, travel days and writing days required to produce a finished opinion, and is lower than the standard used in the past. The department's deputy director for legal affairs and the chief referee have endorsed the new workload standard.

Staffing Requirements in the Budget Year. The department estimates that 7,932 fair hearing cases will be heard and written in 1981–82. This is an increase of 153 cases above the estimated total of 7,779 for 1980–81. The number of hearing officers required to complete the estimated workload in 1981–82 is derived by dividing the estimated number of cases (7,932) by the workload standard (194). As a result of this calculation, the department requires 41 line hearing officers to meet estimated budget year workload (7,932 cases written ÷ 194 cases per officer = 41 hearing officers).

Current Staffing Level. The department states that it currently has 46 line hearing officer positions. Our records show, however, that the Legislature has authorized 50 hearing officers. The other four positions authorized by the Legisla-

DEPARTMENT OF SOCIAL SERVICES—Continued

ture to perform line hearing functions have been redirected by the department to perform other activities. Of the four positions, two are currently supervisors. The remaining two positions are assigned to the central review unit which is responsible for reviewing proposed decisions for consistency with regulations and prior decisions.

Consistent with the workload standard identified by the Department of Finance and the Department of Social Services' estimate of caseload for 1981–82, we recommend a staffing level of 41 hearing officers for 1981–82. This will provide the Department of Social Services with adequate staff to meet anticipated caseload. In the event that workload exceeds the department's estimate, the department will have 11 supervisors and 5 positions in the central review unit who occasionally hear cases, and can be used on a temporary basis to handle the excess . Our recommendation would result in the deletion of nine hearing officer positions that have not been justified on a workload basis.

Food Stamp Positions

We recommend deletion of three positions proposed in the Food Stamp Policy Coordination Bureau because workload has not been documented, for a savings of $83,442 ($41,721 General Fund and $41,721 federal funds).

The budget proposes $83,442 from all funds to establish three positions in the Food Stamp Policy Coordination Bureau. The bureau analyzes and interprets federal law and regulations concerning the Food Stamp program. Currently, the bureau consists of 12 professional positions and 1 clerical position. The three proposed positions are requested in order to handle increased workload due to anticipated passage of federal legislation.

Our analysis indicates the following:

1. ***Amount and Complexity of Workload Is Unknown.*** The department points out that during 1980, the federal government enacted 38 amendments to the Food Stamp Act. This resulted in increased workload for the Policy Bureau during 1980–81. Discussions with departmental staff indicate that state regulations to implement the 38 amendments will be developed and promulgated during the current year.

For planning purposes, the department has assumed that an additional 38 amendments will be adopted by the federal government during 1981–82. We have no basis upon which to project the number of amendments which may be enacted by Congress in future years. The number of amendments adopted in past years, however, has been substantially less than 38. For example, in 1979, seven amendments were enacted, and in 1978 only one amendment was adopted. Furthermore, the complexity of the regulations, and in turn the amount of time required to write and implement state regulations, cannot be determined in advance of the passage of specific federal legislation.

2. ***Food Stamp Policy Bureau Larger Than AFDC Policy Bureau.*** Within the department, the Food Stamp and AFDC Policy Bureaus perform similar activities. Both are responsible for analyzing, interpreting and implementing federal and state policy for their respective programs. Currently, the AFDC Policy Bureau has eight permanent professional positions and the Food Stamp Bureau has ten permanent professional staff. Approval of the department's request for three additional Food Stamp Policy Bureau positions would provide that unit with a total of thirteen permanent positions, or 63 percent more permanent staff than authorized for the AFDC Policy Bureau even though they perform similar activities. We have no data to indicate that the Food Stamp Policy Bureau needs 63 percent more staff to handle its workload than its counterpart bureau in the AFDC program.

For these reasons, we are unable to document the need for additional staff, and recommend deletion of the proposed positions. We also note that it is not sound budgeting practice to establish positions in anticipation that federal legislation might be passed. Contingency staffing is generally not provided to other state agencies that administer federally supported programs.

Community Care Licensing Workload Standards Contain Unjustified Tasks

We recommend a reduction of 19 positions proposed for the Community Care Licensing Division to reflect (a) the deletion of unjustified tasks and (b) actual experience in filling new positions, for a General Fund savings of $454,332.

The budget proposes to add 52 new positions to the Field Operations Branch of the Community Care Licensing Division, at a General Fund cost of $1,136,745. The Field Operations Branch directly licenses community care facilities through nine offices located throughout the state. The request for additional positions is based on (1) application of a January 1980 workload study of the tasks involved in licensing and evaluating community care facilities and (2) a projected increase in the number of community care facilities licensed by state staff from 12,793 in March 1980 to 15,498 in June 1982, a projected annual increase of approximately 12 percent.

Workload Study. A workload study completed by the Department of Social Services indicates that the historically accepted staffing standards of 150 licensed day care or 75 licensed residential care facilities per evaluator do not accurately reflect the actual workload required to license and evaluate community care facilities. Based on a review of actual time spent and tasks performed, the workload study establishes alternative staffing standards for seven distinct categories of facilities, rather than the two broad categories utilized currently.

Our review of this study has identified two components which should not be included in the workload standards: (1) evaluations of community care facilities within 90 days after intitial approval of a license to operate (referred to as post-licensing evaluations) and (2) caseload management activities.

Post-Licensing Evaluations. The proposed staffing standard includes time for evaluators to visit each facility within 90 days after approval of a license to operate. The department advises that these visits may reduce (1) the amount of time required for annual visits and (2) the number of complaints received regarding violations of licensing regulations. Because no data are available to document the effects of these visits, we have no analytical basis to recommend provision for these visits in the proposed workload standard. In addition, because these post-licensing visits have not been conducted on a uniform basis in the past, we cannot assess the amount of time built into the licensing standard for this activity.

Caseload Management. The workload study also includes a factor referred to as "caseload management." This activity is built into the total workload standard as a 20 percent increase to the time required for all other activities. This component includes several tasks, such as case file review and drop-in visits, which are performed as part of other tasks included in the workload study.

Our analysis indicates that the department has implemented new procedures to increase staff efficiency since the time of the workload study. These changes are not reflected in the staffing standard. We recommend the portion of the staffing standards based on this caseload function be reduced by 50 percent to reflect these new procedures. This would reduce the 20 percent factor for caseload management activities to 10 percent.

For the reasons given above, we cannot recommend that provision be made for the post-licensing evaluation and caseload management workload components in the workload standards for licensing evaluations. Table 16 compares the workload standards proposed by the Department of Social Services with the adjusted standards we recommend, based on the deletion of the two identified components.

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 16
Department of Social Services
Alternative Staffing Standards
for Facilities Evaluators
(Facilities per Evaluator)

Facility Category	*Existing Standard*	*Proposed Standard*	*Analyst's Proposed Adjusted Standard*
Day Care	150		
Family day care		129	143
Other day care		104	114
Residential Care	75		
Foster family homes		115	126
Other family homes		113	124
Group homes for children		67	73
Other group homes		51	56
Homefinding agencies		84	84

Projection of Licensed Facilities. Our analysis indicates that the budget's projection of the number of licensed facilities in 1981–82 is based on a continuation of actual experience and appears to be valid. Actual experience throughout 1981–82, however, may vary to the extent that some counties return the licensing function to the state or other program changes occur. In addition, the use of a staffing standard based on the more specific facility categories will require closer tracking of facility growth than in the past. To the extent that the rate of growth in facility types with high staffing standards, such as group homes for children, is less than the overall projected growth rate, the use of prorated overall growth rates employed in the proposal will overstate the actual need for staff. The Department of Social Services advises that systems improvements to its Facilities Information System will allow detailed tracking of facility increases for the department's 1982–83 budget proposal.

Recommend Staffing Level for 1981–82. Based on an application of the adjusted staffing standards shown in Table 16 to the projected number of licenses in force as of June 30, 1982, we have developed an estimate of the staff required to license community care facilities during 1981–82. Table 17 compares the Governor's proposal with our recommended staff level.

Table 17
Department of Social Services
Field Operations Branch
Comparison of Proposed Staffing
and Analyst's Recommended Staffing Level
1981–82

	Existing Staff	*Proposed New Staff*	*Proposed Total Staff*	*Analyst's Proposed*	
				New Staff	*Total Staff*
Evaluator	149.5	33.0	182.5	18.5	168.0
Supervisor	24.0	6.4	30.4	2.4	26.4 [b]
Clerical	50.5	12.5	63.0	12.5	63.0
Manager	14.0	–	14.0	–	14.0
Totals	238.0 [a]	51.9	289.9	33.4	271.4

[a] This column includes 20 positions added to the Field Operations Branch during 1980–81 to perform workload transferred to the state from counties.

[b] Based on one supervisor to every 6.35 evaluators as included in the 1980 Budget Act.

Effective Dates of Positions. The budget proposes to establish 30 of the 51.9 positions on July 1, 1981. The remaining 21.9 positions would be established effective January 1, 1982 to provide adequate staff to handle anticipated increases in the number of licensed facilities during the year. Our analysis of the department's projection of facilities licensed indicates that a total of 14,750 facilities are expected to be licensed by December 1981. Based on our recommended staffing standard, this workload will require the addition of 11.5 evaluators, 1.2 supervisors and 8 clericals on July 1, 1981 and the remaining 12.7 positions on January 1, 1982.

Salary Savings. The proposal for 51.9 new positions includes an estimate of $258,565 for salary savings anticipated as a result of reducing gross salaries and wages required for these positions by an amount equal to (1) 50 percent of the annual salaries for those positions proposed to be established at midyear, plus (2) an additional reduction of 5 percent to allow for normal turnover and unpredictable absences. The Department of Finance's budget instructions for new positions requires that (1) adjustments must be made to salary savings for dollars and personnel-year fractions to compensate for the actual number of months the position is expected to be vacant during the year, and (2) a minimum of 5 percent salary savings be budgeted for new positions in addition to this vacancy adjustment.

A review of Field Operations Branch experience in filling 41 new positions authorized in the 1980 Budget Act and 20 positions administratively established during 1980–81 indicates that, on average, these positions were vacant 127 working hours prior to being filled; a period equal to 7 percent of annual work time. According to the Department of Finance instructions, 7 percent, rather than 5 percent, of gross salaries and wages for the positions approved should be deducted from the proposal to reflect the actual experience of this unit in filling newly authorized positions. Using the department's methodology for estimating salary savings, plus an additional 2 percent to reflect actual experience, we estimate salary savings of $147,732 for our recommended staffing level.

Recommendation. Based on the adjusted staffing standards shown in Table 16, we recommend that the number of staff authorized for 1981–82 be increased by 33.4—19 positions (15 evaluators and 4 supervisors) less than the number requested in the budget. Of these 33.4 positions, we recommend that 11.5 evaluators, 1.2 supervisors, and 8 clerical positions be established effective July 1, 1981, and the remaining positions be established January 1, 1982.

Based on these adjustments to the proposed position request and taking into account the salary savings needed to comply with Department of Finance budget instructions, we recommend a total reduction of $454,332 from the General Fund, consisting of $377,052 from personal services and $77,280 from operating expenses and equipment.

Legal Assistance for Community Care Licensing Division

We recommend that five new positions proposed to provide additional legal assistance for the community care licensing program be limited to June 30, 1982 because of probable workload savings in the future.

The budget proposes $143,456 from the General Fund to establish 1.5 attorneys, 2.5 legal assistants, and 1 clerical position in the Office of the Chief Counsel to provide legal support to the community care licensing program. The Office of the Chief Counsel (1) prepares licensure cases for litigation by the Attorney General and (2) represents the Community Care Licensing Division in administrative hearings on license revocations and denials. The department advises that additional legal support is needed for these activities due to (1) increased emphasis on enforcement of licensing laws and regulations by state and county evaluator staff, (2) continued growth in the number of licensed facilities, and (3) increased num-

DEPARTMENT OF SOCIAL SERVICES—Continued

bers of trained licensing evaluators employed by the state.

Efficient Procedures Reduce Staff Need. A major portion of the workload anticipated for the proposed legal assistants involves the preparation of cases for attorney work. Our analysis indicates that the licensing evaluation staff of the department has recently implemented case preparation procedures which are expected to reduce the workload of these legal assistants. This workload reduction factor has not been taken into account in the proposal for additional legal assistants.

Staff Need Based on Number of Evaluators. The proposal for legal staff is built on a projection of the percentage increase in state licensing staff in 1981–82. Consequently, to the extent that legislative action on the 1981 Budget Bill reduces the licensing staff, the legal staff proposal may also be subject to reduction.

Existing Backlog. The department advises that the Office of the Chief Counsel processed 70 of the 134 referrals from the Community Care Licensing Division during 1979–80, leaving a backlog of 64 cases. Our analysis indicates that (1) the number of referrals far exceeded the legal staff's output during the period June 1979 to November 1979, (2) the number of referrals per month is expected to remain constant during 1981–82, and (3) the number of cases processed by the Office of the Chief Counsel increased after November 1979 but has not kept pace with the number of new referrals. Our analysis has not identified, however, an acceptable backlog for this program activity.

We recognize the current and budget year workload facing the Office of the Chief Counsel. Our analysis indicates that the elimination of existing backlogs by limited-term staff and increased staff efficiency may reduce the need for these positions in future years. Therefore, we recommend that approval of these five proposed positions be limited to June 30, 1982.

Request for Additional Social Services Evaluation Positions

We recommend the deletion of six new positions proposed to evaluate children's services programs because existing staff can absorb this workload, for a General Fund savings of $183,097, consisting of $136,687 in personal services and $46,410 in operating expenses and equipment.

The budget proposes to add six new positions in the Operations Assessment Unit of the Planning and Review Division, at a cost of $183,097. The new positions are proposed to review over a two-year period, the (a) delivery of children's protective services, (b) 24-hour emergency response system, and (c) foster care programs in 10 counties. The objectives of these reviews are to:

(1) Evaluate the effectiveness, efficiency and equitable local administration of services systems, procedures, regulations and/or operations.
(2) Provide evaluation of proposed program modifications through detailed field studies and operations reviews.
(3) Develop program and services information necessary for program/policy decisions, planning and reviews by outside agencies.
(4) Conduct an evaluation of the effect of specific children's services programs on the recipients.

Our analysis indicates that additional staffing to conduct the reviews proposed for these six positions is not required for several reasons.

Current Staff Not Utilized for Social Services Reviews. The Operations Assessments Unit currently is authorized eight positions to conduct social services reviews similar to those proposed in the budget. During the first six months of 1980–81, the eight positions were involved in assessing county delivery of food stamps and had not initiated a single review of social services activities. Although

24 positions were approved specifically for food stamp review in the 1980 Budget Act, only six of the positions were filled as of January 1981.

Program Operations Bureau. The Family and Children's Services Program Operations Bureau (15 positions) monitors children's services programs delivered by the counties to ensure effective, equitable and efficient service delivery. This bureau also conducts special studies of high priority program issues. An example of such a special study is a detailed review scheduled to be conducted during January and February 1981 of the children's protective services (CPS) program. In a letter dated November 24, 1980, county welfare directors were notified by the department that the CPS review would include (1) an administrative questionnaire, (2) a compliance-oriented case review, (3) a review of services characteristics, and (4) an intake decision making survey. The Family and Children's Services Program Operations Bureau has announced that a review of foster care will also be conducted during 1981. Because existing staff is already assigned to review those programs, additional staff is not required.

Integrated Review and Improvement Studies Have Already Documented Delivery Systems. A series of Integrated Review and Improvement Studies of the children's services programs was conducted in 17 counties by the Operations and Assessments Unit during 1978–79. The studies identified problem areas and documented the characteristics of each county's service delivery system. The department's proposal for additional staff in the Operations Assessments Unit anticipates workload in excess of two personnel-years in order to redocument the service systems previously identified.

Evaluation of Family Protection Act and 24-Hour Response Systems. Pursuant to legislative direction, the department has committed staff in the current year to conduct evaluations of the Family Protection Act (Chapter 21, Statutes of 1977) pilot counties and the 24-Hour Response System. The evaluation designs for both studies included a client outcome component. Our preliminary review of the 24-Hour Response System report, submitted January 20, 1981, indicates that this report includes an assessment of the effects of these services on clients. Although the Family Protection Act report has not yet been submitted to the Legislature, preliminary results indicate that this effort may preclude the need for the client outcome portion of the proposed workload.

Positions Authorized For the 24-Hour Response System. The 1979 Budget Act established 16 permanent positions specifically for the implementation and continued monitoring of the 24-hour response system. This is one of the two programs for which the department is requesting six new positions. Our analysis indicates that current staff resources are sufficient to monitor this program adequately.

Existing departmental staff are currently monitoring and evaluating the programs identified in the request for six additional positions. In addition, the department has not utilized existing staff in the Operations Assessments Unit for social services reviews. The existing eight positions in that unit could be directed to conduct special audits and outcome evaluations of county delivered children's services programs without the addition of six new staff. We therefore recommend deletion of the six proposed new positions, for a General Fund reduction of $183,097, consisting of $136,687 in personal services and $46,410 in operating expenses and equipment.

Interstate Compact for the Placement of Children

We recommend (1) transfer of responsibility for the administration of the foster care component of the Interstate Compact for the Placement of Children from the Planning and Review Division to the Adult and Family Services Division, and (2) deletion of two proposed new positions for this activity, for a General Fund savings of $58,142.

The Interstate Compact for the Placement of Children (ICPC) (Civil Code

DEPARTMENT OF SOCIAL SERVICES—Continued

Sections 264-274) obligates the 46 member states to coordinate the interstate placement of children in foster care and adoptive homes. Prior to a major reorganization of the Department of Health in 1978, the adoptions and foster care components of California's ICPC activities were administered by a single organization in the Department of Health. After the transfer of social services programs to the Department of Social Services, however, this function was split. Currently within DSS, the Adult and Family Services Division coordinates the placement of children for *adoption,* and the Planning and Review Division is responsible for the assignment of *foster care* cases to appropriate county welfare departments and agencies in other states.

Need for Closer Coordination. The current California ICPC designated compact administrator is the deputy director for Adult and Family Services. The Adult and Family Services Division has the responsibility for overall supervision of the state's foster care program and contains field staff and program policy staff to carry out this responsibility. Currently, four positions in the Planning and Review Division are responsible for (1) reviewing ICPC requests from other states and from California county welfare departments for home evaluations and (2) monitoring the supervision of foster care placements in California from other states. Because (1) the Adult and Family Services Division contains a field monitoring capacity and (2) major policy decisions in the foster care program are coordinated within the Adult and Family Services Division and should incorporate problems identified with the interstate flow of children, California could more effectively carry out its obligations under the ICPC if the administration of the entire compact was consolidated under the direct supervision of the designated compact administrator.

Additional Staff Not Required. Existing resources within the Family and Childrens Services Branch of the Adult and Family Services Division can meet the anticipated workload identified in connection with the request for two additional positions to administer the foster care component of ICPC. The organization responsible for foster care program policy is the Family and Children's Services Policy Unit. The budget proposes to continue three positions in the Family and Children's Services Policy Unit, which were initially authorized in the 1979 Budget Act. This unit, consisting of 20 authorized positions, experienced a 17 percent vacancy rate in 1979–80, for an average of 3.4 vacant positions. During the first six months of 1980–81, the vacancy rate for this unit was 21 percent.

The department advises that, as of November 1980, all positions authorized in this unit have been filled. In order to justify the need for continuation of the three limited-term positions, the department has identified several tasks that have been delayed due to past vacancies. One of these tasks is a response to program problems related to ICPC foster care cases. Our analysis indicates that the continuation of the three limited-term positions, combined with the recent filling of positions which were previously vacant, will enable the Family and Children's Services Policy Unit to assume the responsibilities identified in the department's proposal for two ICPC positions.

Therefore, we recommend (1) a transfer of the function of ICPC foster care and related positions from the Planning and Review Division to the Adult and Family Services Division and (2) deletion of two positions proposed for the Planning and Review Division, for a General Fund savings of $58,142 consisting of $45,566 in personal services and $12,576 in operating expenses and equipment.

Systems and Policy Branch Reorganization

We withhold recommendation on $438,148 ($370,673 General Fund and $67,475 in federal funds) budgeted for 11 positions in the Systems and Policy Branch of the Adult and Family Services Division, pending receipt of detailed workload data for these positions.

The budget proposes continuation of 13 of the 14 existing positions for the Systems and Policy Branch of the Adult and Family Services Division. The responsibilities of this branch include forms and systems development for all the social services programs administered by the Adult and Family Services Division. During our review of the staff requests for this division, however, we learned that the Systems and Policy Branch will be dissolved prior to the beginning of 1981–82, and that 13 positions will be assigned to other branches within the division. The remaining position, authorized to provide program input to the Statewide Public Assistance Network (SPAN) project, expires June 30, 1981. Two of the 13 continuing positions are proposed for a limited term, expiring June 30, 1982, to provide input to SPAN.

The Department of Social Services advises that this branch will be dismantled in order to eliminate duplication and inefficient management practices. Table 18 shows the department's organizational plan for positions currently assigned to the Systems and Policy Branch.

Table 18
Department of Social Services
Reorganization of Systems and Policy Branch
Proposed Organizational Location of Redirected Positions

Branch		*Positions*
Family and Children's Services Systems Bureau (New)	1	Staff Services Manager II
	1	Staff Services Manager I
	2	Associate Governmental Program Analyst (AGPA)
	1	AGPA (SPAN)
	1	Social Services Consultant (SSC) III
Social Services Planning Branch	(1)	AGPA–Expires June 30, 1981 (SPAN)
	1	AGPA
	1	SSC II
	1	Staff Services Analyst
	1	Management Services Technician
	1	Office Technician
Adult Services Branch	1	AGPA
	1	SSA (SPAN)
Total	13	

We have identified three problems with this proposed reorganization: (1) the budget does not identify workload which justifies additional staff in the units currently anticipated to receive the redirected positions, (2) administrative efficiency anticipated as a result of the proposed redirection is not reflected in reductions of requested 1981–82 staff, and (3) the absence of workload data regarding the reorganization makes it difficult for the Legislature to review the staffing needs of the Adult and Family Services Division.

Because of these problems, we withhold recommendation on $438,148, ($370,673 from the General Fund and $67,475 in federal funds)—the funding necessary to continue the 11 non-SPAN positions. We recommend that the Department of Social Services prepare and submit detailed workload justification for the continuation of these 11 positions prior to legislative hearings on its budget.

DEPARTMENT OF SOCIAL SERVICES—Continued

Office of Government and Community Relations

We recommend:

1. The deletion of 3 government liaison positions and 2.5 clerical positions because they duplicate functions of other authorized personnel, for a savings of $212,342 ($116,788 General Fund and $95,554 federal funds).

2. The deletion of a staff services manager II in the Welfare Program Operations Division and a staff services manager II in the Adult and Family Services Division, because the positions duplicate functions of authorized positions, for a savings of $92,926 ($70,125 General Fund and $22,801 federal funds).

Background. The Office of Government and Community Relations assists in the formulation of departmental policy and represents the department before the Legislature, local governmental agencies and community groups. The office consists of six units, as shown in Chart 1. The office reports to the director of the department and is separate from the departmental divisions responsible for supervising the administration of welfare and social services programs in California.

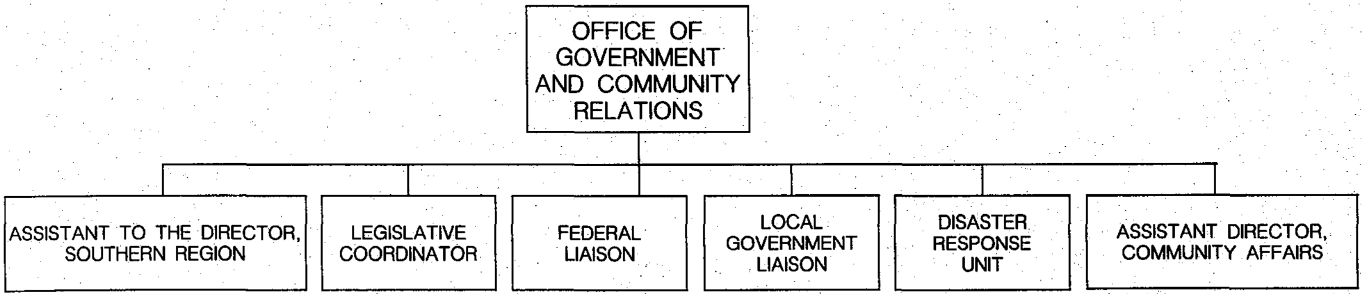
Our analysis suggests that several of the units in the office duplicate the activities of various line bureaus of the department.

Local and Small County Liaison Positions. The Local Government Liaison Unit consists of one professional position who participates in the development of departmental policies and provides policy interpretation between the department and county welfare directors, boards of supervisors and local government officials. This unit is also responsible for conveying local government positions on welfare issues to the department.

The Office of Government and Community Relations also contains one person on contract as the Small County Liaison. This position is responsible for providing advice and recommendations from small counties to the department.

Chart 1

Office of Government and Community Relations



DEPARTMENT OF SOCIAL SERVICES—Continued

Our analysis suggests that the duties of the local government and the small county liaisons duplicate the responsibilities of other positions within the department. For example:

- The department has 10 deputy directors who assist in the formulation of departmental policies and who are responsible for representing the department before local government officials. Of the 10 deputies, one is responsible for providing policy interpretation and direction to county welfare department directors and local government officials in the administration of income maintenance programs. Another deputy performs the same functions in the delivery of social services throughout the state.
- There are also various program operation bureaus within the department which are responsible on a daily basis for interpreting federal and state regulations and providing management consultation to county welfare departments. In addition, the program staff are responsible for "providing effective feedback to top DSS administration on local concerns and problems from both welfare administrative officials and outside organizations." In the Welfare Program Division alone there are currently 49.5 professional positions authorized to provide policy interpretation and consultation to local officials on cash assistance programs.

Because the local and small county liaisons duplicate the functions of other authorized positions in the department, we recommend that they be deleted, for a savings of $101,575.

Federal Liaison. The Federal Liaison Unit is responsible for reviewing state plans for cash grant and social services programs prior to their submission to the federal government. In addition, the unit is responsible for tracking federal bills and reviewing proposed federal regulations.

Our review of departmental operations, however, found that day-to-day contacts with the federal government are carried out by the deputy directors and their program staffs. For instance, program staffs review and propose changes in the various state plans. In addition, there are separate policy bureaus in the department responsible for analyzing proposed federal legislation and regulations. As an example, the Welfare Program Operations Division is authorized 36.5 professional positions to review proposed federal laws and regulations for the AFDC, SSI/SSP, Food Stamp and Child Support Enforcement programs.

Because the federal liaison duplicates the activities of other authorized positions, we recommend that funding for the unit be deleted, for a savings of $56,069.

We also recommend a corresponding reduction of 2.5 clerical positions. This would leave the Office of Government and Community Relations with four clerical positions for the ten remaining professional positions.

Assistant to the Director, Southern Region. It is our understanding that the duties of this position are similar to those of the local government liaison, but limited to southern California. The position participates in the development of departmental policies and provides policy interpretation between the department and local government officials, including county welfare departments, in southern California.

Our analysis suggests that these duties duplicate the functions of the deputy directors and various operation bureaus within the department. Currently, this position is exempt from civil service hiring requirements. Because this position is performing some of the workload of authorized positions within the program operations bureaus of the department, however, we recommend the deletion of a staff services manager II position within the Welfare Program Operations Division, for a savings of $45,602.

Assistant Director, Community Affairs. The department's organization handbook states that in order to improve the administration of welfare programs, this position is responsible for a "variety of special projects involving liaison between the department, the Legislature, the private business sector, and numerous community groups. . . ." In addition, the position "manages the American Indian Foster and Day Care Home Recruitment Project and serves as the American Indian Coordinator for all aspects of departmental operations affecting that population group."

Our analysis suggests that this position duplicates activities of other staff in the department. First, one of the responsibilities of this position is to improve welfare administration. As noted previously, the department has various deputy directors and program staff responsible for providing policy interpretation and direction to local governments in the administration of welfare programs.

Second, to the extent that this position works on American Indian Welfare programs, it duplicates activities of positions currently authorized in the Adult and Family Services Division. For example, the 1980 Budget Act authorized one position for the adoptions branch to work specifically on Indian adoptions. The department also requested one position to implement the federal Indian Child Welfare Act. The Legislature, however, denied the requested position, based on its determination that adequate personnel were available in the Adult and Family Services Division.

The Assistant Director, Community Affairs position is exempt from civil service hiring requirements. However, because the position in the Office of Government and Community Affairs appears to perform some of the workload of other positions, we recommend the deletion of a staff services manager II within the Adult and Family Services Division, for a savings of $47,324.

Health and Welfare Agency

DEPARTMENT OF SOCIAL SERVICES

Items 518-101 from the General Fund

Requested 1981–82	$2,539,486,144
Estimated 1980–81	2,751,983,412
Actual 1979–80	2,309,996,836
Requested decrease $212,497,268 (−7.7 percent)	
Total recommended reduction [a]	$20,682,362
Total recommendation pending [a]	$32,398,314

[a] General Fund totals for all local assistance elements.

1981–82 FUNDING BY ITEM AND SOURCE

Item Description	Fund	Amount
518-101-001—Local Assistance	General	$2,539,486,144
—(a) AFDC cash grants		(1,215,955,900)
—(b) SSI/SSP cash grants		(1,051,005,000)
—(c) Special adult programs		(3,728,800)
—(d) County welfare department administration		(110,092,643)
—(e) Special social services programs		(143,782,101)
—(f) Community care licensing		(6,463,700)
—(g) Local mandate		(8,458,000)

DEPARTMENT OF SOCIAL SERVICES—Continued

Item 518-101-001 appropriates all of the General Fund support for the state share of the local assistance programs administered by the Department of Social Services. We discuss the programs separately in the following six sections. We have identified the Budget Bill reference by the appropriate letter, such as 518-101 (a) for the AFDC cash grant program.

Department of Social Services
AID TO FAMILIES WITH DEPENDENT CHILDREN

Item 518-101 (a) from the General Fund — Budget p. HW 163

Requested 1981–82	$1,215,955,900
Estimated 1980–81	1,195,856,900
Actual 1979–80	964,760,500
Requested increase $20,099,000 (+1.7 percent)	
Total recommended reduction	$4,393,213

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Performance Standards for Administering the AFDC Program. Reduce by $4,393,213.* Recommend *General Fund* reduction of $4,393,213 from Item 518-101-001 (a), AFDC cash grants, because funds are overbudgeted give the application of fiscal sanctions. 992

GENERAL PROGRAM STATEMENT

The Aid to Families with Dependent Children (AFDC) program provides cash grants to children and their parents or guardians whose income is insufficient to meet their basic needs. Eligibility is limited to families with children who are needy due to the death, incapacity, continued absence or unemployment of their parents or guardians.

The Budget Bill contains an in-lieu appropriation for the Aid to Families with Dependent Children (AFDC) program. This does not limit program expenditures because the Welfare and Institutions Code provides a continuous appropriation to finance cash grants to eligible children, and their parents or guardians, under the program. In addition, language in the Budget Bill provides that the Director of Finance can increase AFDC expenditures due to (1) changes in caseload or payment standards, (2) enactment of a federal or state law or (3) a final court decision on the merits of a case.

ANALYSIS AND RECOMMENDATIONS

Current Year Deficiency

The budget estimates that there will be a General Fund deficiency of $41,924,650 in the current year for the AFDC program. The deficiency is due to caseload increases in the AFDC-unemployed parent program resulting from: (a) regulations issued by the department following the United States Supreme Court decision in *Westcott* v. *Califano* and (b) a greater than anticipated number of unemployed parents due to the recession.

The 1980 Budget Act assumed a caseload of 201,070 recipients in the AFDC-unemployed parent program during 1980–81. Based on caseload data through August 1980, the department has revised its current year estimate upward by 51,350 recipients, to 252,420. Of this increased caseload, the department estimates that approximately 37,486 additional recipients, or 73 percent, are due to the Westcott regulations and the remaining 13,864 are related to the recession. The cost for the new recipients added as a result of the Westcott regulations is estimated at $35,410,100 for 1980–81. Of this amount, the state share is $26,320,300, the county costs are $3,186,900, and the federal government's share is $5,902,900. (This issue is discussed later in this analysis.)

It is possible that the General Fund deficiency in the current year could be greater than estimated due to recent increases in the AFDC-family group caseload. Current year estimates of expenditures for the AFDC-family group program are based on two months of actual caseload experience (July and August 1980). Actual caseload data, which is now available for September and October 1980, show that the family group caseload is above the estimate shown in the 1981–82 budget document. To the extent that the family group caseload exceeds current year projections, additional General Fund costs will be incurred.

Because the Welfare and Institutions Code provides a continuous appropriation to finance cash grants to eligible children and their parents, a deficiency bill is not required to increase the amount of funds for this program. Control Section 32.5 of the 1980 Budget Act authorizes the Director of Finance, after notifying the Legislature, to approve increases in expenditures for the AFDC program which are in excess of the amounts appropriated for the 1980–81 fiscal year.

Budget Year Proposal

The budget proposes program expenditures of $1,215,955,900 from the General Fund in 1981–82. In addition to these funds, the budget provides $5,762,000 from the General Fund for costs related to the AFDC program mandated by the state's legislative and executive branches. Thus, the state's General Fund cost for AFDC grants and local mandates in fiscal year 1981–82 is proposed at $1,221,717,900. This is an increase of $20,263,500, or 1.7 percent, over estimated 1980–81 expenditures.

Total expenditures from all funds for AFDC cash grants are proposed at $2,662,-136,700, which is an increase of $108,285,100, or 4.2 percent, over estimated current year expenditures. In addition to these funds, the budget includes federal funds of $103,007,300 for cash grants to refugees (Indochinese, Cubans and others) who do not meet the eligibility requirements for existing welfare programs, but who will receive a grant amount equal to the AFDC payment level as a result of federal requirements.

Total expenditures, including AFDC grants, local mandates, and payments to refugees, are proposed at $2,765,144,000, which is an increase of $136,359,800, or 5.2 percent, above estimated current year expenditures. Table 1 shows the total estimated expenditures for AFDC grants in 1980–81 and 1981–82.

Table 1
Total Expenditures for AFDC Grants

Funding	*Estimated 1980–81*	*Proposed 1981–82 Amount*	*Proposed 1981–82 Percent Increase*
AFDC			
Federal	$1,252,372,000	$1,338,361,800	6.9%
State	1,195,856,900	1,215,955,900	1.7
County	105,622,700	107,819,000	2.1
Subtotals	$2,553,851,600	$2,662,136,700	4.2%
Local Mandates			
Federal	—	—	—
State	$5,597,500	$5,762,000	2.9
County	−5,597,500	−5,762,000	2.9
Subtotals	—	—	—
Refugees			
Federal	$74,932,600	$103,007,300	37.5%
State	—	—	—
County	—	—	—
Subtotals	$74,532,600	$103,007,300	37.5%
Special adjustments	(—)	(46,000,800)	(—)
Totals	$2,628,784,200	$2,765,144,000	5.2%

Table 2
Expenditures for AFDC Grants by Category of Recipient
(in millions)

	Estimated 1980–81				*Proposed 1981–82*							
					Amount				*Percent Change*			
Recipient	*Total*	*Federal*	*State*	*County*	*Total*	*Federal*	*State*	*County*	*Total*	*Federal*	*State*	*County*
Family group	$2,121.1	$1,080.6	$928.1	$112.4	$2,212.1	$1,135.6	$960.3	$116.2	4.3%	5.1%	3.5%	3.4%
Unemployed parent	345.4	161.8	163.8	19.8	356.5	191.0	147.6	17.9	3.2	18.0	−9.9	−9.6
Foster care	183.7	43.9	132.9	6.9	192.8	46.9	138.6	7.3	5.0	6.8	4.3	5.8
Aid for adoption of children	3.0	—	3.0	—	3.2	—	3.2	—	6.7	—	6.7	—
Child support incentive payments to counties	—	14.7	13.5	−28.2	—	15.1	12.9	−28.0	—	2.7	−4.4	−0.7
Child support collections from absent parents	−99.5	−48.6	−45.5	−5.4	−102.5	−50.3	−46.6	−5.6	3.0	3.5	2.4	3.7
Totals	$2,553.7	$1,252.4	$1,195.8	$105.5	$2,662.1	$1,338.3	$1,216.0	$107.8	4.2%	6.9%	1.7%	2.2%

Table 3
Proposed General Fund Budget Increases for AFDC Grants
1981–82

	Cost	*Total*
1980–81 Current Year Revised		$1,195,856,900
A. Baseline Adjustments		
1. Basic Caseload		–5,561,900
2. Cost-of-living increase		
a. 1980–81: Reduced costs as a result of providing a 13 percent increase instead of 15.48 percent increase	–$9,905,900	
b. 1981–82: 4.75 percent increase	65,813,000	
Subtotal		$55,907,100
3. Refugees—terminate 100 percent federal funding for time limited refugees		
a. Indochinese	$5,118,300	
b. Cubans	321,000	
Subtotal		$5,439,300
4. Court cases		
a. Northcoast Coalition-vs-Woods	1,859,400	
b. Vaessen-vs-Woods	–1,241,600	
c. Youakim-vs-Miller	6,600	
d. Westcott-vs-Califano	2,060,500	
e. Garcia-vs-Swoap (80 percent supplementation)	8,000	
Subtotal		$2,692,900
5. Regulations		
a. Overpayment/recoupment	–66,800	
b. Stepparent responsibility	–71,600	
c. Foster care eligibility	–957,500	
d. Federal budgeting regulations	1,277,400	
e. Eliminate passing grade requirement	890,200	
Subtotal		$1,071,700
6. Reduced grant costs due to:		
a. Increases in minimum wage	–$2,512,600	
b. Increases in Retirement, Survivors, Disability and Health Insurance	–2,228,800	
c. Extension of unemployment benefits	–1,730,900	
Subtotal		–$6,472,300
7. Special adjustments		
a. Limit eligibility for state AFDC-U program	–28,780,200	
b. Eliminate 80 percent supplementation	–6,423,000	
Subtotal		–$35,203,200
8. Reduced costs due to increased child support collections		–$1,078,300
9. Reduced costs for child support incentive payments		–696,300
B. Total Budget Increase		($20,099,000)
C. Proposed 1981–82 Expenditures		$1,215,955,900

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Expenditures by Category of Recipient

AFDC grant payments are provided to four categories of recipients, as shown in Table 2. Total payments from all funds for the family group component—typically a mother with one or more children—are proposed at $2,212.1 million for 1980–81, an increase of 4.3 percent over the current year. In addition, the 1981–82 budget proposes an expenditure of $356.5 million, from all funds, for cash grants to unemployed parents with dependent children. This is an increase of 3.2 percent over the current year. Finally, the budget proposes an expenditure of $192.8 million in 1981–82 for grants to children receiving foster care in boarding homes and institutions, which is an increase of 5 percent over the current year.

Proposed General Fund Budget Increases

Table 3 shows the changes in General Fund expenditures for the AFDC program proposed in the 1981–82 budget. General Fund expenditures in the budget year will increase by $20,099,000 over estimated current year expenditures. This amount consists of $65,111,000 in increased expenditures and $45,012,000 in offsetting savings.

Most of the proposed increase—85.9 percent, or $55,907,100—is related to cost-of-living increases for AFDC grants.

AFDC Caseload

The budget projects that the AFDC caseload will increase by 12,210 persons, or 0.8 percent, in 1981–82 as shown in Table 4.

Table 4
AFDC Average Monthly Persons Receiving Assistance
1980–81 and 1981–82

Program	*Estimated 1980–81*	*Proposed 1981–82*	*Percent Change*
AFDC-Family Group	$1,214,410	$1,227,310	1.1%
AFDC-Unemployed	252,420	251,770	−0.3
AFDC-Foster Care	26,320	26,280	−0.2
AFDC-Aid for Adoption of Children	1,840	1,840	-
Totals	$1,494,990	$1,507,200	0.8%

SPECIAL ADJUSTMENTS PROPOSED BY THE ADMINISTRATION

Fiscal Impact of Special Adjustments and Cost-of-Living Increases

Table 5 shows the "special adjustments" and cost-of-living reductions from what current law requires proposed by the budget for the AFDC program in 1981–82. The table reflects savings due to both reduced grant and administrative costs. The General Fund reductions total $124,047,800. Of this amount, savings resulting from cost-of-living adjustments that are less than what existing law requires total $87,174,000. In addition, the administration proposes to limit eligibility for the state AFDC-U program which will result in reduced costs of $30,013,900. The budget also proposes to modify the AFDC budgeting system which will reduce costs by $6,859,900.

Table 5
Proposed Budget Reductions
General Fund
1981–82

	Cost	*Total*
1. Special Adjustments		
a. Limit eligibility for the state AFDC-U program		
(1) Assistance payments	−$28,780,200	
(2) Administration	−1,233,700	
Subtotal		−$30,013,900
b. Eliminate 80 percent supplementation of AFDC grants		
(1) Assistance payments	−6,423,000	
(2) Administration	−436,900	
Subtotal		−$6,859,900
2. Cost-of-living increase—Reduce cost-of-living from 11.2 percent to 4.75 percent		−$87,174,000
Totals		−$124,047,800
Grant Payments		(−$122,377,200)
Administrative Costs		(−$1,670,600)

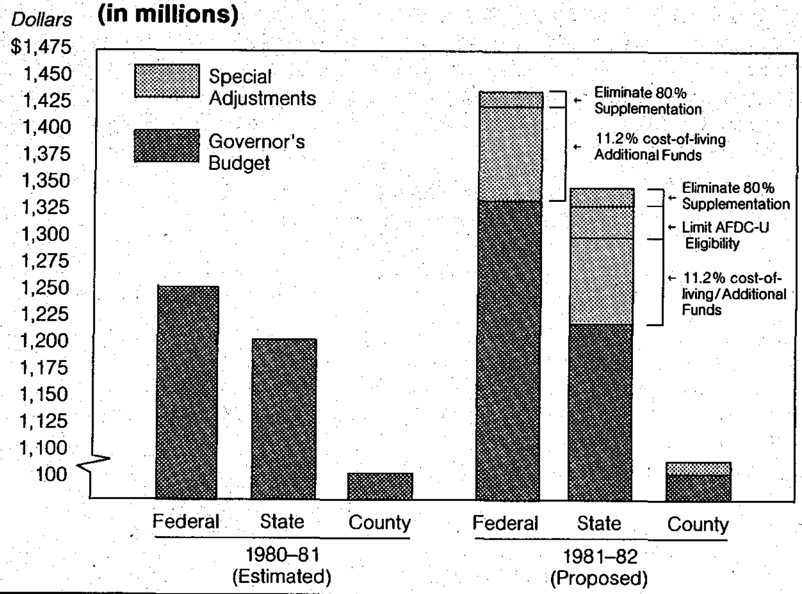
Chart 1 shows the fiscal effect of the proposed reductions on AFDC *grant* expenditures for 1981–82. Under current law, General Fund costs for AFDC grants (including local mandates) would total $1,344.2 million in 1981–82. If the administration's proposed reductions are adopted, General Fund expenditures for AFDC grants (including local mandate costs) in 1981–82 would be $1,221.8 million, a difference of $122.4 million.

Limit Eligibility for the State AFDC-U Program.

The AFDC-unemployed parent program provides cash assistance to needy children and their parents who are unemployed. State participation in the AFDC program is optional. Currently 26 states, including California, participate with the federal government in providing cash grants to children and their parents who are unemployed. In addition, California provides cash assistance to children and their unemployed parents who do not meet the federal eligibility requirements for the AFDC-U program. The state AFDC-U program is funded solely by state and county funds. At the time this Analysis was written, it was our understanding that the administration proposed to limit eligibility for the state-only program to families where neither parent is employed full time. As a result, families with a full time employed parent and an unemployed parent, who did not meet federal requirements, would not be eligible for the state AFDC-U program.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Chart 1
AFDC Expenditures 1980–81 and 1981–82 (in millions)



Eliminate 80 Percent Supplementation of AFDC Grants.

Current federal regulations allow states to adopt one of three methods for calculating a recipient's monthly grant payment. These options are: (a) prior-month budgeting with supplementation of grant payments, (b) prior-month budgeting with no supplementation, provided the assistance payment is issued within a specified time frame, and (c) concurrent (prospective) budgeting.

Currently, California calculates a recipient's grant payment using prior-month budgeting with supplementation of the grant. Under this method, the recipient's grant in the current month is based on actual income received in a prior month. If, as a result of this calculation, the recipient's combined grant and income is less than 80 percent of the maximum aid payment standard, the recipient is entitled to a supplemental grant. The value of the supplemental grant is that amount which, when combined with the grant and income, equals 80 percent of the maximum grant.

At the time this Analysis was written, it was our understanding that the administration proposes to change its regulations so that the recipient's grant is calculated using prior-month budgeting with no supplementation. Under this proposal, the state is required to provide the assistance payment within 25 days of the prior month used for calculation of the grant.

Currently, counties do not meet the 25 day requirement. Under the current system, income received between the first and last day of month one (budget month) is reported to the county welfare department in month two. This information is used to calculate the grant provided in month three (payment month). As a result, there is a 30-day lag between the *budget month* (month one—used to calculate the grant) and the *payment month* in which the grant is received. The administration proposes to change the budget month from the first through the last day of the month, to the seventh day of one month through the sixth day of the next month. This change would allow the checks provided on the first and fifteenth of the month to fall within the necessary 25-day period.

Cost-of-Living Increase

Current Law and the Administration's Proposal. State law requires that recipients of assistance under the AFDC family group and unemployed parent programs receive an annual cost-of-living increase on their grants effective July 1 of each year. The cost-of-living adjustment required on July 1, 1981 is based on the change in the California Necessities Index from December 1979 to December 1980. It is currently estimated that the required cost-of-living adjustment is 11.2 percent. The budget proposes to suspend, during 1981–82, the automatic cost-of-living increase required by current law and to provide instead a 4.75 percent increase in AFDC grants.

Maximum Payment Levels. Table 6 shows the maximum AFDC grant levels for selected family sizes assuming: (a) a 4.75 percent cost-of-living adjustment, as proposed by the administration and (b) an 11.2 percent increase, as required by current law. If a 4.75 percent increase is provided, the grant for a family of three will increase by $22 to $485. Under current law, the grant would increase by $52 to $515.

Historically, AFDC grant levels for children residing in foster care have been established by county boards of supervisors. On occasion, the counties adjusted the grant amounts without taking changes in the Consumer Price Index into consideration. AB 8 limited state reimbursement for increases in AFDC foster care grants to the same percentage increase applied to grants for the AFDC family group and unemployed parent program. Chapter 511, Statutes of 1980 (AB 2982), suspended this provision by providing for a 15.48 percent increase in foster care grants during the entire 1980–81 fiscal year. Counties may increase the foster care grants by more than 15.48 percent during the current year, but they will have to fund the full cost of the larger grant amount. In 1981–82, under current law, state reimbursement for cost-of-living increases for foster care will be the same as that provided for the family group and unemployed parent grants.

Table 6
Maximum AFDC Grant Levels
1980–81 and 1981–82

		1981–82			
		Governor's Proposal 4.75 Percent		Current Law 11.2 Percent	
Family Size	*1980–81 Estimated Jan–Jun '81*	*Amount*	*Change*	*Amount*	*Change*
1	$227	$238	$11	$252	$25
2	374	392	18	416	42
3	463	485	22	515	52
4	550	576	26	612	62
5	628	658	30	698	70

Fiscal Effect of Various Cost-of-Living Increases. Table 7 shows the fiscal effect on the General Fund of providing a 4.75 percent cost-of-living increase and a 11.2 percent adjustment. The administration's proposal to provide a 4.75 percent increase will cost $65,813,000 from the General Fund. An 11.2 percent cost-of-living adjustment would require an additional $87,174,000 from the General Fund.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Table 7
Cost-of-Living Expenditures for AFDC Grants
Assuming Various Cost-of-Living Increases
General Fund
1981–82

	Current Law (11.2 Percent)	*Administration's Proposal (4.75 Percent)*	*Difference*
General Fund	$152,987,000	$65,813,000	$87,174,000

Previous Increases in AFDC Grants. Each month, recipients of assistance under the AFDC program receive a payment consisting of two components: (1) the basic grant and (2) the cost-of-living adjustment. The basic grant represents the cost of obtaining necessary living needs such as food, clothing, shelter and utilities. State law requires that the basic grant amount be adjusted annually to reflect changes in the cost of living. The purpose of the cost-of-living adjustment is to help the purchasing power of welfare recipient grants keep pace with the rising costs of food, shelter, transportation and other necessities of life.

Prior to July 1973, AFDC grants were not regularly increased to reflect the impact of inflation. For example, between October 1951 and June 1973, the grant for a family of three was increased six times. Table 8 shows the increases in the AFDC grant for a family of three since July 1973. This table shows that:

- Starting in July 1973, cost-of-living adjustments have been provided in each year except 1978–79. Cost-of-living increases were suspended during 1978–79 after the passage of Proposition 13. (The Welfare Reform Act of 1971 (Chapter 578, Statutes of 1971) required, effective July 1, 1973, that AFDC grants be increased annually based on the change in the Consumer Price Index.)
- Effective January 1977, AFDC grants were increased by six percent. This increase was in addition to the annual cost-of-living adjustment required by the Welfare and Institutions Code.
- For the first six months of 1980–81 (June–December 1980), grants were increased 15.48 percent above the grant amounts provided in 1979–80. During the last six months of 1980–81 (January –June 1981), grants were reduced to a level which was 13 percent above the amounts provided in 1979–80.

Table 8
AFDC Grant Increase for a Family of Three
1973–74 to 1981–82

Grant Period Covered	*Amount*	*Change Amount*	*Change Percent*
1973–74	$243	—	—
1974–75	262	$19.00	7.8%
1975–76	293	31.00	11.8
1976–77			
July–December 1976	319	26.00	8.9
January–June 1977	338	19.00	6.0
1977–78	356	18.00	5.3
1978–79	356	—	—
1979–80	410	54.00	15.2
1980–81			
July–December 1980	473	63.00	15.4[a]
January–June 1981	463	−10.00	−2.1
1981–82 (Proposed)	485	22.00	4.75

[a] Does not equal 15.48 percent due to rounding.

California's AFDC Grants Compared to Other States. Table 9 compares the maximum grant levels for the 10 most populous states for family sizes three, four, and five, as of January 1, 1981.

Table 9
State Comparison [a]
Maximum AFDC Grant Levels
January 1, 1981

	Family Size		
States	*Three*	*Four*	*Five*
California	$463	$550	$628
New York	394	476	544
Texas	116	140	164
Pennsylvania	332	395	451
Illinois	302	368	432
Ohio	263	327	381
Michigan	432	508	591
Florida	195	230	265
New Jersey	360	414	468
Massachusetts	379	445	510

[a] In descending order by state population.

Maximum AFDC Levels Compared to Poverty Levels. One of the objectives of the AFDC program is to provide eligible children and their parents with a minimum standard of living. One method of assessing whether this objective has been achieved is to compare the maximum AFDC grant payments with the poverty levels for various family sizes. Although it is difficult to define the true poverty level, the Bureau of the Census publishes annually an estimate of "poverty thresholds." The thresholds, which are intended to reflect the costs for minimum nutrition and other items for various family sizes, are updated annually to reflect changes in the Consumer Price Index (CPI). For a family below the poverty level, the difference between a family's income and the threshold represents the amount of additional money needed to reach the poverty line.

The use of the overall CPI to increase the poverty thresholds can overstate the true poverty level. This is because the index includes the impact of increased costs for items which many grant recipients do not purchase. For example, a major cause of rapid CPI inflation in 1979 (11.3 percent), involved escalating housing costs and rising mortgage interest rates. Although most grant recipients are renters and do not purchase homes, the impact of housing costs is included in the index for increasing the poverty level. On the other hand, to the extent that the original market basket used to define the poverty threshold excludes goods which welfare recipients purchase, this measure could understate the true poverty level.

Keeping in mind these limitations of the poverty definition, Table 10 compares, for illustrative purposes, the maximum AFDC grant levels in California with the poverty thresholds published by the Bureau of the Census for family sizes of three and four. The grant amounts do not include the value of other benefits, such as food stamps and Medi-Cal, which the family also may receive.

The table shows that families which received the maximum AFDC grant levels, had an income which placed them below the poverty levels for 1977, 1978, and 1979. In 1979, the poverty level for a nonfarm family of three was $5,784. During the same period, the maximum grant for an AFDC family of three was $4,596, or 20.5 percent ($1,188) below the poverty level. The poverty level for a family of four in 1979 was $7,412. The maximum AFDC grant for the same family size during 1979 was $5,460, or 26.3 percent ($1,952) below the poverty level.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Table 10
Poverty Levels and Maximum AFDC Payment Levels 1977 to 1979

	Family of Three			Family of Four		
		AFDC Grant			AFDC Grant	
Year	Poverty Level	Amount	Percent Below Poverty Level	Poverty Level	Amount	Percent Below Poverty Level
1979	$5,784 [a]	$4,596	20.5%	$7,412 [a]	$5,460	26.3%
1978	5,201	4,272	17.9	6,662	5,076	23.8
1977	4,833	4,164	13.8	6,191	4,950	20.0

[a] Preliminary

Westcott v. Califano

Background. In June 1979, the United States Supreme Court ruled that Section 407 of the Social Security Act was unconstitutional because it discriminated on the basis of sex by providing AFDC benefits to families only when the father was the unemployed parent. Unlike the federal government, California did not discriminate on the basis of sex at the time of the ruling because it provided AFDC benefits to families with either unemployed fathers or mothers. The cost of the benefits provided to families where the mother is the unemployed parent has been paid by the state and counties.

Following the Westcott decision, the Department of Social Services repealed that part of its regulations which specified the eligibility requirements to be met for the AFDC-U program when both parents lived in the home, but the unemployment of only one parent was the basis for eligibility. Specifically, it deleted the requirement that the unemployed parent have been in the labor market for a period of 30 days prior to eligibility.

In the May 1980 revision of expenditures, the department identified the court case but did not provide an estimate of cost due to the lack of caseload data. In concurring with the department's proposed regulations, the Department of Finance indicated that while the regulations might increase the AFDC-unemployed caseload, the impact was expected to be insignificant.

November 1980 Expenditures. The Department of Social Services' revised estimate of expenditures for 1980–81 identifies a total cost of $35,410,100 in 1980–81 related to its *Westcott vs Califano* regulations. Of this amount, the state share is $26,320,300, the county costs are $3,186,900, and the federal costs total $5,902,900. The department estimates that General Fund costs in 1981–82 will be $28,380,800.

Because California has historically provided AFDC benefits to families where either the father or mother was the unemployed parent, we requested that the department explain why it had significantly modified its regulations following the Westcott decision. The department cited the following considerations:

1. *Unwarranted Distinction Between Unemployed Parents.* The department stated that its regulations created a distinction, without basis in federal or state law, between cases in which both parents were unemployed and those in which only one parent was unemployed. Specifically, previous regulations required that in a family where only one parent was unemployed, that parent had to have been "in the labor market for full time employment" at least 30 days prior to receiving aid. No such requirement was placed on a family where both parents were unem-

ployed. The Legislative Counsel has provided our office with an opinion which supports the department's conclusion on this point. However, it is not clear that the Westcott decision specifically required this change in state regulations.

2. ***Labor Force Connection.*** The department's regulations required the unemployed AFDC parent to "have been in the labor market for full time employment at least the 30-day period immediately prior to the beginning date of aid." The department stated that the 30-day requirement was not in conformity with state statute because the Welfare and Institutions Code makes no reference to a 30-day labor market connection. The Legislative Counsel concluded that "the labor market requirement would not, however, appear to violate the state statutory definition of employment, since that statute does require that a person be seeking employment." Legislative Counsel points out that "applying the rule of statutory interpretation that statutes must be given a reasonable construction (Great Western Distiller Products, Inc., v. J. A. Wather & Co., 10 Cal 2d 442, 446), the labor market requirement can be viewed as a reasonable means of determining whether the person has been seeking employment."

3. ***County Application of Labor Force Connection.*** The department stated that it had received indications that the 30-day labor force connection, while gender neutral, was applied by the counties in a way that discriminated against women. The regulations required that the unemployed parent have been in the labor market for full time employment for at least 30 days prior to the beginning date of aid. Although this meant that the unemployed parent need only have been looking for a job, the department asserted that some counties interpreted this to require the parent to have been employed full time prior to the beginning of aid.

We are unable to determine how the counties applied the labor force connection. However, if the department determined that counties were incorrectly applying the regulations, the department could have provided instructions clarifying the intent and application of the rules, rather than repealing the requirement.

Based on the information provided by the department and the opinion of the Legislative Counsel, it appears that parts of the regulations concerning eligibility of unemployed parents for AFDC benefits were inconsistent with state law, and other parts (30-day work requirement) were consistent. Nevertheless, it is not clear to us that the Westcott decision required the department to modify its regulations. The administration's proposal in the budget to limit eligibility for the state AFDC-U program, however, appears to be addressing the fiscal impact of the Westcott regulations.

Funds for Preliminary Court Injunctions

Department of Finance request. Section 32.5 of the 1980 Budget Act authorizes the Director of Finance to increase expenditures in the AFDC program for purposes which were not anticipated in the budget. The section requires the director to notify the Legislature, through the Joint Legislative Budget Committee, of increased costs in excess of $500,000 when such increases are not the result of enactment of a federal or state law. During 1980, the Director of Finance notified the Legislature on three occasions of increased costs in the AFDC program due to pending court cases. In May and June 1980, the director requested a waiver of the 30-day waiting period in order to allow the Department of Social Services to issue instructions directing counties to comply with *preliminary court injunctions* in the cases of *Vaessen* v. *Woods* and *North Coast Coalition* v. *Woods.* In addition, the director proposed in October 1980 to allow the department to issue emergency regulations to comply with a *preliminary court injunction* in the case of *Angus* v. *Woods.*

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Legislative Response. The Joint Legislative Budget Committee denied the request for a waiver of the 30-day waiting period in the Vaessen and North Coast Coalition cases because the department was appealing the court's decision. Because final decisions had not been issued in the cases, there was no basis for determining what, if any, changes the state would be required to make in its program. In addition, compliance with the preliminary injunctions would have resulted in significant General Fund costs (in 1980–81 approximately $2.8 million in the Vaessen case and $2.6 million in the North Coast Coalition case) which the department would not be able to recoup if it ultimately prevailed in court. In conclusion, the committee denied the request for a waiver of the 30-day waiting period and urged that the Directors of the Departments of Finance and Social Services use all legal means to maintain the status quo, pending a final decision invalidating the existing regulations.

Funds made available for court decisions. On October 28, 1980, the Director of Finance notified the Joint Legislative Budget Committee that she had exhausted all reasonable legal means available to the state to resolve the cases. Accordingly, she stated that she had approved the issuance of all-county letters in the Vaessen and North Coast Coalition cases and emergency regulations in the Angus case. The director noted that the North Coast Coalition case had been decided on its merits by the First District Court of Appeal on October 1, 1980. In addition, she pointed out that the federal government had concluded that state regulations which were at issue in the Angus case were out of compliance with federal requirements.

The director concluded that by approving funds for the North Coast Coalition and Angus cases, she had no choice but to approve funding for the Vaessen case even though the department was continuing to appeal the decision. The director stated that under the language in Section 32.5 of the 1980 Budget Act, she did not have the discretion to pick and choose the cases for which funds were made available.

Proposed control language. In order to restrict the availability of funds for court orders, the 1981 Budget Bill contains control language which provides that no funds are appropriated or available for court orders until a final court decision on the merits is issued. The intent of this language is to prohibit the administration from modifying its regulations in order to comply with court orders until a final decision invalidating the regulations is issued. Our analysis indicates that the proposed language responds to the issues previously identified by the Joint Legislative Budget Committee. We recommend approval.

Performance Standards for Administering the AFDC Program

We recommend a General Fund reduction of $4,393,213 from Item 518-101-001 (a), AFDC cash grants, because funds are overbudgeted given the application of fiscal sanctions.

This issue is discussed on page 1011 of the Analysis under Item 518-101-001 (d), County Administration of Welfare Program.

Department of Social Services

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND AND DISABLED

Item 518-101(b) from the General Fund — Budget p. HW 166

Requested 1981–82	$1,051,005,000
Estimated 1980–81	1,251,981,900
Actual 1979–80	1,087,536,118
Requested decrease $200,976,900 (–16.1 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Optional Supplementation of Federal SSI Benefits. Recommend enactment of legislation which requires legislative approval of program changes in those cases where state supplementation of federal SSI benefits is optional. 1002

GENERAL PROGRAM STATEMENT

The supplemental Security Income/State Supplementary Payment (SSI/SSP) program is a federally-administered program under which eligible aged, blind and disabled persons receive financial assistance. It began on January 1, 1974 when the federal Social Security Administration assumed responsibility for administration of the cash grant program which provides assistance to California's eligible aged, blind and disabled. Prior to that, California's 58 county welfare departments administered a joint federal-state-county program which provided cash assistance to these recipients. The federal and state governments share the grant costs of the SSI/SSP program. The federal government pays the cost of the SSI grant and the state pays the cost of the SSP program.

ANALYSIS AND RECOMMENDATIONS

Current Year Deficiency

The budget estimates that there will be a deficiency of $11,267,168 in the SSI/SSP program for 1980–81, primarily due to increased caseload. The 1980 Budget Act assumed a total SSI/SSP caseload of 704,742 persons. The department's most recent estimate projects a caseload of 707,528, or 2,786 more recipients than anticipated for 1980–81. All of the caseload increase is in the disabled category.

Budget Year Proposal

The budget proposes an appropriation of $1,051,005,000 from the General Fund for the state share of the SSI/SSP program in 1981–82. This is a decrease of $200,976,900, or 16.1 percent, below estimated current year expenditures. Federal expenditures of $886,985,400 are proposed for 1981–82, an increase of $100,946,900, or 12.8 percent, over estimated current year expenditures.

Total expenditures of $1,937,990,400 are proposed for the SSI/SSP program for 1981–82, as shown in Table 1. This is a decrease of $100,030,000, or 4.9 percent, below estimated current year expenditures.

35—81685

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND AND DISABLED—Continued

Table 1
Total Expenditures for the SSI/SSP Program
1980–81 and 1981–82

	Estimated 1980–81	*Proposed 1981–82*	*Change Amount*	*Change Percent*
Federal	$786,038,500	$886,985,400	$100,946,900	12.8%
State	1,251,981,900	1,051,005,000	–200,976,900	–16.1
County	–	–	–	–
Totals	$2,038,020,400	$1,937,990,400	–$100,030,000	–4.9%

Federal Revenue Sharing Funds

Budget Bill language in Item 954 specifies that $180.3 million, plus any interest earnings, shall be appropriated from the Federal Revenue Sharing Fund to the General Fund to finance part of the state's cost of the SSP program. Language in Item 518 (the SSP appropriation) specifies that the revenue sharing funds will be expended prior to the expenditure of the remaining General Fund amount appropriated in the item.

Expenditures by Category of Recipients

Grant payments in the SSI/SSP program are made to three general categories of recipients, as shown in Table 2. Total grant expenditures to aged recipients are proposed at $657,183,900, a decrease of 9.2 percent below estimated current year expenditures. In addition, the budget proposes $1,221,139,200, from all funds, for cash grants for disabled recipients. This is a decrease of $30,737,900, or 2.5 percent, below the estimated current year expenditures. The budget also proposes to spend $59,667,300 for cash grants for blind recipients, a decrease of 4.2 percent below estimated current year expenditures.

Proposed General Fund Budget Decreases

Table 3 shows the proposed changes in General Fund expenditures for the SSP programs. General Fund expenditures are proposed to decrease by $200,976,900 in 1981–82. This consists of $14,954,200 in increased costs and $215,931,100 in reduced expenditures. The major cost increase is $11,849,300, due to anticipated caseload growth. The budget also contains General Fund costs of $2,551,900 for Indochinese refugees who, because they have been in the United States more than three years, are not eligible for 100 percent federal funding. The $2,551,900 represents the state's share of costs for these individuals, which will be matched by federal funds. In addition, the budget contains $200,000 to provide cost-of-living increases to a category of recipients known as "mandatory supplementation cases."

Three factors account for the decrease of $215,931,000 in General Fund expenditures for the SSI/SSP program. First, recipient unearned income (for example, Retirement, Survivors, Disability and Health Insurance) is estimated to increase by 12.3 percent on July 1, 1981. This will result in increased unearned income of $136.3 million which will reduce total SSP grant costs. Second there is a savings of $64.1 million as a result of annualizing a 13 percent cost-of-living adjustment, rather than a 15.48 percent increase in 1981–82. Third, due to the method of calculating the SSI/SSP cost-of-living increase, federal funds, rather than General Fund support, will be used to provide the proposed 4.75 percent cost-of-living adjustment. (This issue is discussed elsewhere in the Analysis.)

Table 2

Expenditures for SSI/SSP Grants by Category of Recipient
1980–81 and 1981–82

Recipient	*Estimated 1980–81*			*Proposed 1981–82*			*Percent Change From 1980–81*		
	Total	*Federal*	*State*	*Total*	*Federal*	*State*	*Total*	*Federal*	*State*
Aged	$723,870,600	$207,478,800	$516,391,800	$657,183,900	$231,737,100	$425,446,800	−9.2%	11.7%	−17.6%
Blind	62,272,700	21,783,600	40,489,100	59,667,300	24,668,800	34,998,500	−4.2	13.2	−13.6
Disabled	1,251,877,100	556,776,100	695,101,000	1,221,139,200	630,579,500	590,559,700	−2.5	13.3	−15.0
Totals	$2,038,020,400	$786,038,500	$1,251,981,900	$1,937,990,400	$886,985,400	$1,051,005,000	−4.9%	12.8%	−16.1%

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND AND DISABLED—Continued

Table 3
Proposed General Fund Budget Changes
1981–82

	Amount	*Total*
1980–81 Current Year Revised		$1,251,981,900
A. Baseline Adjustments		
1. Basic caseload increase		11,849,300
2. Cost-of-living increase		
a. 1980–81: Reduced costs as a result of providing a 13 percent increase instead of 15.48 percent adjustment	–$64,149,800	
b. 1981–82: Reduced costs because federal cost-of-living funds are used to offset state grant costs	–12,708,100	
Subtotal		–$76,857,900
3. Reduced grant costs due to increased recipient unearned income		
a. 1980–81 increase adjusted for caseload	–$2,741,500	
b. 1981–82 increase	–136,331,700	
Subtotal		–$139,073,200
4. Federal legislation		
a. Substantial gainful employment (PL 96-265)	$353,000	
b. Indochinese refugees—PL 96-212	2,551,900	
Subtotal		$2,904,900
5. Mandatory supplementation cases		200,000
Total Budget Decrease		(–$200,976,900)
Proposed General Fund Expenditures		$1,051,005,000

Caseload

The budget projects that the caseload for the SSI/SSP program will increase by 8,855 persons, or 1.3 percent, as shown in Table 4. These projections are subject to change during the May revision of expenditures.

Table 4
SSI/SSP Average Monthly Persons Receiving Assistance
1980–81 and 1981–82

Program	*Estimated 1980–81*	*Proposed 1981–82*	*Change Persons*	*Change Percent*
Aged	315,060	317,500	2,440	0.8%
Blind	17,603	17,850	247	1.4
Disabled	374,865	381,033	6,168	1.6
Totals	707,528	716,383	8,855	1.3%

Cost-of-Living Increase

Current Law. Current law requires cash grants for SSI/SSP recipients to be increased annually to compensate for increases in the cost-of-living. The cost-of-living adjustment required on July 1, 1981 is based on the change in the California Necessities Index between December 1979 and December 1980. It is currently estimated that the cost-of-living adjustment required under existing law is 11.2 percent.

Administration's Proposal. The administration proposes to suspend, during 1981–82, the automatic cost-of-living adjustment required by current law and to provide instead a 4.75 percent increase on the SSI/SSP grant. Under the budget proposal, federal funds made available for a cost-of-living increase on the SSI grant would be used to finance the 4.75 percent cost-of-living adjustment on the total SSI/SSP grant.

The federal government will provide $154.4 million for a 12.3 percent cost-of-living increase on the SSI grant in 1981–82. The administration is proposing to use $141.9 million of the federal funds to provide a 4.75 percent cost-of-living adjustment to the total combined SSI/SSP grant. The remaining $12.5 million in federal funds will be used to reduce the state's SSP grant costs. Under current law, the state can use the federal funds to offset General Fund costs so long as the SSP grant levels do not drop below the December 1976 payment standards.

Table 5 illustrates how the federal funds will be used to (a) finance the 4.75 percent cost-of-living increase and (b) reduce the state's SSP grant costs. Under the administration's proposal, the *total* SSI/SSP grant for an aged individual will increase by $19, or 4.75 percent, to $421 in 1981–82. Because the federal government will provide a cost-of-living increase on the SSI grant of 12.3 percent, or $29.30, the state's share of costs on the SSP grant will decrease by $10.30.

Table 5
SSI/SSP Maximum Grant
Aged Individual

	1980–81 Jan–June 1981	*1981–82*	*Change Amount*	*Change Percent*
Total Grant	$402.00	$421.00	$19.00	4.73% [a]
SSI	238.00	267.30	29.30	12.3
SSP	164.00	153.70	−10.30	−6.3

[a] Does not equal 4.75 percent because the amount of money for the increase is rounded to the nearest dollar.

Maximum Payment Levels. Table 6 compares the maximum SSI/SSP grant payments, for selected categories of recipients, assuming: (a) a 4.75 percent cost-of-living adjustment as proposed by the administration and (b) an 11.2 percent increase required by current law. Under existing law, the maximum grant for an aged individual would increase by $45, to $447 in 1981–82. Under the administration's proposal, the grant for an aged individual will increase by $19, to $421 in the budget year.

Table 6
Maximum SSI/SSP Grant Levels
1980–81 and 1981–82

Category of Recipient	*1980–81 Estimated Jan-June '81*	*1981–82 Governor's Proposal 4.75 Percent: Amount*	*Change*	*1981–82 Current Law 11.2 Percent: Amount*	*Change*
Aged/Disabled Individual					
Total grant	$402.00	$421.00	$19.00	$447.00	$45.00
SSI	238.00	267.30	29.30	267.30	29.30
SSP	164.00	153.70	−10.30	179.70	15.70
Aged/Disabled Couple					
Total grant	746.00	781.00	35.00	830.00	84.00
SSI	357.00	401.00	44.00	401.00	44.00
SSP	389.00	380.00	−9.00	429.00	40.00
Blind Individual					
Total grant	451.00	472.00	21.00	502.00	51.00
SSI	238.00	267.30	29.30	267.30	29.30
SSP	213.00	204.70	−8.30	234.70	21.70
Blind Couple					
Total grant	877.00	919.00	42.00	975.00	98.00
SSI	357.00	401.00	44.00	401.00	44.00
SSP	520.00	518.00	−2.00	574.00	54.00

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND AND DISABLED—Continued

Fiscal Effect of Various Cost-of-Living Increases. If the statutory cost-of-living adjustment of 11.2 percent is provided to SSI/SSP recipients instead of the proposed 4.75 percent increase, the additional General Fund cost would be $207.1 million as shown in Chart 1. This would increase General Fund costs for this program to $1,258.1 million in the budget year, or $6.1 million more than estimated current year expenditures.

Chart 1
SSI/SSP Expenditures 1980–81 and 1981–82 (in millions)

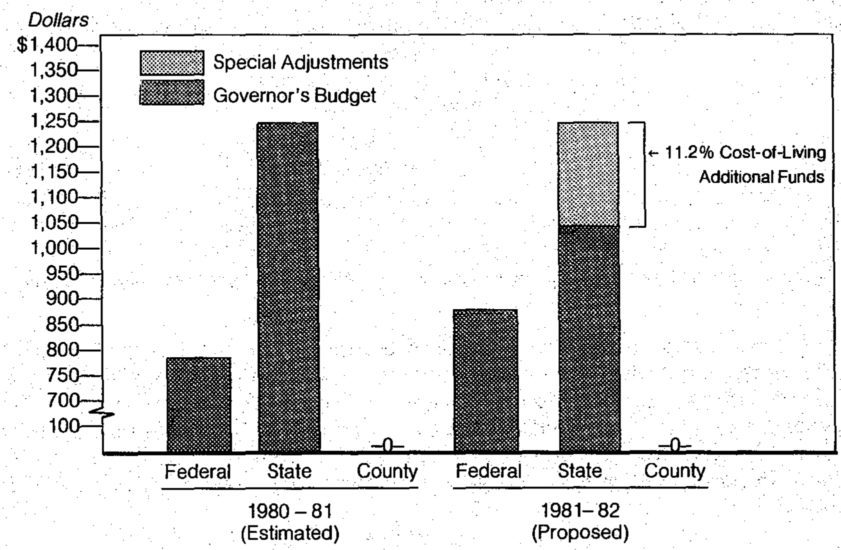


Table 7 compares the fiscal effect of providing a 4.75 percent, rather than an 11.2 percent, cost-of-living adjustment. The administration's proposal to provide a 4.75 percent cost of living will cost $141.9 million. Federal funds will be used to fund the entire amount. An 11.2 percent cost-of-living adjustment would require expenditures totaling $349.0 million. The cost to the state for providing an 11.2 percent adjustment, instead of a 4.75 percent increase, would be $207.1 million in 1981–82.

Table 7
Cost of Living Expenditures for SSI/SSP Grants Assuming Various Cost-of-Living Increases
1981–82

	Current Law (11.2 Percent)	*Administration's Proposal (4.75 Percent)*	*Difference*
General Fund	$194,591,900	–$12,508,100	$207,100,000
Federal funds	154,418,100	154,418,100	—
Totals	$349,010,000	$141,910,000	$207,100,000

Consequences of Modifying the Cost-of-Living Adjustment for SSI/SSP Recipients. Failure to provide the full cost-of-living adjustment required by current statute would have the following consequences.

a. ***Loss of Food Stamp "Cash—Out" Status.*** If California does not provide the full cost-of-living increase, it could be required to provide food stamps to eligible SSI/SSP recipients. Under current federal law, California is allowed to provide cash in lieu of food stamps to eligible SSI/SSP recipients so long as the state: (1) passes on the federal cost-of-living increase for the SSI grant and (2) provides a cost-of-living increase for the SSP grant pursuant to current state law. This provision of federal law allows the state to avoid the administrative costs which would occur if county welfare departments were required to distribute food stamps to SSI/SSP recipients.

It is uncertain whether the federal government would require the state to provide food stamps to eligible SSI/SSP recipients if the full cost-of-living was not provided in 1981–82. For example, although the state changed its cost-of-living formula for 1980–81, the federal government did not require it to provide food stamps to SSI/SSP recipients.

The issue in 1981–82 may be different, however. While the state changed its method for calculating cost-of-living increases in 1980–81, it provided the maximum increase required by the new formula. In 1981–82, the administration is proposing to provide an adjustment which is less than that required by the current cost-of-living formula.

If the state loses its "cash-out" status, the state and counties would incur administrative costs of approximately $40 million to provide food stamps to eligible SSI/SSP recipients. Under current sharing ratios, the state and counties each would pay $20 million. The federal government would contribute $40 million.

b. ***Failure to Meet the Federal Government's Maintenance of Effort Requirement (PL 94-585).*** In order to receive federal Title XIX Medicaid funds (Medi-Cal), the state is required to either (1) maintain its gross expenditures for the SSP program at the current year levels or (2) maintain the state payment levels provided in December 1976. The state has been complying with this law by meeting the gross expenditure test. If a 4.75 percent cost-of-living increase is provided, the state's expenditures for the SSP program would be insufficient to meet the gross expenditure test. If the state fails to meet the gross expenditure test, it could still avoid the loss of Medicaid funds by insuring that SSP grants for all categories of recipients did not drop below the grant levels paid in December 1976. In order to meet this requirement, the state would be required to provide the cumulative amount of all SSI cost-of-living increases since December 1976 to mandatory supplementation cases. The Governor's Budget contains $200,000 to provide the cost-of-living increases to the mandatory supplementation cases during 1981–82.

Historical Cost-of-Living Increases for SSI/SSP Recipients. Each month, SSI/SSP recipients receive a single monthly check from the federal government. The amount of the check covers the federal grant payment for SSI and the state grant payment for SSP. Both the SSI and SSP grants consist of a basic grant amount and a statutorily set cost-of-living factor. The basic grant represents the cost of obtaining necessary living needs, such as food, clothing, shelter and utilities. The purpose of the cost-of-living adjustment is to help the purchasing power of grants to SSI/SSP recipients keep pace with the rising costs of food, shelter, transportation and other necessities of life.

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND AND DISABLED—Continued

Table 8 shows the increase in SSI/SSP grants for an aged or disabled individual from the beginning of the program in January 1974 through 1981–82. During this seven-year period, the SSI/SSP grant increased annually at a rate of 8.0 percent.

Table 8
SSI/SSP Grant Increases for an Aged Individual
January 1974 to 1981–82

	SSI/SSP Grant	*Percent Increase*
January–June 1974	$235.00	–
1974–75	235.00	–
1975–76	259.00	10.2%
1976–77	276.00	6.6
1977–78	296.00	7.2
1978–79	307.60	3.9[a]
1979–80	356.00	15.7
1980–81		
July–December 1980	420.00	18.0
January–June 1981	402.00	12.9
1981–82[b]	$421.00	4.7%

[a] Reflects the effect of the SSI cost-of-living increase for 1978–79. The SSP cost-of-living increase was suspended except for July and August 1978 when the total grant payment for an aged individual was $322.
[b] Proposed by the administration.

California's SSI/SSP Grants Compared to Other States. The federal government allows states, at their option, to supplement the federal SSI benefits. California supplements the SSI benefits through the State Supplementary Payment (SSP) program. Table 9 shows the SSI/SSP benefits for an aged individual for the 10 most populous states as of January 1, 1981. Of the 10 states, six supplemented the basic grant, with California providing the largest supplementation of $164, followed by New York with a monthly supplement of $63. California's supplementation was 160 percent more than that provided by New York.

Table 9
State Comparison[a]
Maximum Monthly SSI/SSP Grant Levels
For An Aged Individual, Ten Largest States
January 1, 1981

State	*Total Grant*	*Federal SSI*	*State SSP*
California	$402	$238	$164
New York[b]	301	238	63
Texas	238	238	0
Pennsylvania	270	238	32
Illinois[b]	238	238	0
Ohio	238	238	0
Michigan[b]	262	238	24
Florida	238	238	0
New Jersey	261	238	23
Massachusetts	357	238	19

[a] In descending order by state population.
[b] Grant levels vary by region within the state.

Table 10 shows the maximum SSI/SSP grant levels for aged couples as of January 1, 1981. Of the 10 most populous states, California's grant level was the highest at $746 per month. Six of the 10 states supplemented the federal grant. Four of the six states provided supplemental payments of less than $100. California provided the largest supplemental grant of $389, followed by Massachusetts with a supplement of $215 per month. California's supplement is $174, or 81 percent, more than that provided by Massachusetts.

Table 10
State Comparison
Maximum Monthly SSI/SSP Grant Levels
For An Aged Couple, Ten Largest States
January 1, 1981

State	*Total Grant*	*Federal SSI*	*State SSP*
California	$746	$357	$389
New York	436	357	79
Texas	357	357	0
Pennsylvania	406	357	49
Illinois	357	357	0
Ohio	357	357	0
Michigan	393	357	36
Florida	357	357	0
New Jersey	369	357	12
Massachusetts	572	357	215

Maximum SSI/SSP Levels Compared to Poverty Levels. One of the objectives of the SSI/SSP program is to provide aged, blind and disabled recipients with a minimum standard of living. One way of assessing whether this objective has been achieved is to compare the maximum SSI/SSP grant amounts with the poverty levels for various family sizes. Although it is difficult to define the true poverty level, the Bureau of the Census publishes annually an estimate of "poverty thresholds." The thresholds, which are intended to reflect the costs for minimum nutrition and other items for various family sizes, are updated annually to reflect changes in the Consumer Price Index (CPI). For a family below the poverty level, the difference between a family's income and the threshold represents the amount of additional money needed to reach the poverty level.

The use of the overall CPI to increase the poverty thresholds can overstate the true poverty level. This is because the index includes the impact of increased costs for items which many grant recipients do not purchase. For example, a major cause of rapid CPI inflation in 1979 (11.3 percent) involved escalating housing costs and rising mortgage interest rates. Although most grant recipients are renters and do not purchase homes, the impact of rising housing costs is included in the index for increasing the poverty level. On the other hand, to the extent that the original market basket used to define the poverty threshold excludes goods which welfare recipients purchase, this measure could understate the true poverty level.

Keeping in mind these limitations of the poverty definition, Table 11 compares the SSI/SSP grant levels in California with the poverty levels for an aged individual and a two-person family (head of household over age 65). The grant amounts do not include the value of other benefits, such as Medi-Cal, which the family may receive. The table shows that recipients who received the maximum SSI/SSP grant had an income which placed them above the poverty levels for 1977, 1978 and 1979. For example, in 1979 the poverty level for an individual 65 years of age or older was $3,479. During the same period, the maximum annual SSI/SSP grant was $3,982, or 14.5 percent ($503), above the poverty level. The poverty level for a

STATE SUPPLEMENTARY PAYMENT PROGRAM FOR THE AGED, BLIND AND DISABLED—Continued

two-person household (with the head of household over age 65) was $4,390. At the same time, the maximum SSI/SSP grant was $7,406, or 68.7 percent ($3,016), above the poverty threshold.

Table 11
Poverty Levels and Maximum SSI/SSP Grant Levels
1977 to 1979

	Aged Individual			*Aged Couple*		
		SSI/SSP Grant Level			*SSI/SSP Grant Level*	
	Poverty Level	*Amount*	*Percent Above Poverty Level*	*Poverty Level*	*Amount*	*Percent Above Poverty Level*
1979	$3,479 [a]	$3,982	14.5%	$4,390 [a]	$7,406	68.7%
1978	3,127	3,650	16.7	3,944	6,844	73.5
1977	2,906	3,432	18.1	3,666	6,474	76.6

[a] Preliminary.

Eligibility for State Supplementary Payment Program

We recommend enactment of legislation which requires legislative approval of program changes in those cases where state supplementation of federal SSI benefits is optional.

General eligibility criteria for the state supplementary payment (SSP) program are contained in the Welfare and Institutions Code. Section 12150 of the Welfare and Institutions Code provides that individuals who are eligible for the federal Supplemental Security Income (SSI) program are also entitled to receive SSP benefits. Historically, there have been few changes to the federal SSI eligibility requirements which have had significant fiscal impact on the state's supplementation program. However, enactment of recent federal legislation (PL 96-265) suggests that by conditioning eligibility for state supplementation on federal eligibility, the Legislature has delegated substantial authority over adoption of optional SSP changes to the administration.

PL 96-265 Substantial Gainful Activity. Prior to enactment of PL 96-265, a disabled individual who was employed and earning more than $300 a month was considered to be engaged in substantial gainful activity (SGA), and therefore not eligible for SSI benefits. As a result of the enactment of PL 96-265, an individual who loses his eligibility for regular SSI benefits because of performance of substantial gainful activity becomes eligible for a special benefit status which entitles him to cash benefits equivalent to those he would be entitled to receive under the regular SSI program. In addition, a person who receives the special benefits is eligible for Medicaid and social services on the same basis as a regular SSI recipient.

PL 96-265 provides that state supplementation of the federal benefits for SGA cases is *optional.* The Department of Social Services has notified the Social Security Administration, which administers the SSI/SSP program, that California will supplement the federal grant for SGA cases starting in 1980–81.

It is the department's position that the state is required to supplement the Federal benefits provided to SGA cases. This is because Section 12150 of the Welfare and Institutions Code provides that an individual who receives SSI benefits is eligible for the state supplementary payment program. The department estimates the cost of the supplementation at $300,900 in 1980–81 and $670,000 in 1981–82. Of the $670,000, the state will pay $640,800 and the federal government will pay $29,200.

We have no programmatic basis for recommending against the administration's decision to supplement federal SSI grants to individuals who demonstrate substantial gainful activity. To the extent that PL 96-265 encourages disabled recipients to work, it would have a beneficial effect.

It appears that the administration's decision to supplement the federal SSI benefits provided to SGA individuals is consistent with state law concerning eligibility for the SSP program. (We have requested an opinion from Legislative Counsel as to whether receipt of SSI benefits triggers eligibility for SSP benefits.)

Our analysis indicates, however, that this program change raises a larger issue of legislative control. Specifically, it appears that state statute does not provide for legislative review and control over *optional* changes in the SSP program. In order to provide an opportunity for such review, we recommend legislation be enacted which requires legislative approval of program changes in those cases where state supplementation of federal SSI benefits is optional.

Department of Social Services
SPECIAL ADULT PROGRAMS

Item 518-101(c) from the General Fund — Budget p. HW 167

Requested 1981–82	$3,728,800
Estimated 1980–81	5,719,016[a]
Actual 1979–80	5,236,700
Requested decrease $1,990,216 (−34.8 percent)	
Total recommended reduction	None

a. Includes $123,000 from Emergency Revolving Fund.

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation to provide grants for the emergency and special needs of SSI/SSP recipients. The special allowance programs for SSI/SSP recipients are paid entirely from the General Fund, and are administered by county welfare departments. In addition, this item contains the cash grant costs for three special groups of recipients: (a) refugees (Indochinese, Cubans and others) who do not meet the eligibility criteria for other cash assistance programs, (b) Cuban refugees on general relief, and (c) repatriated Americans.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Current Year Deficiency

The budget estimates a 1980–81 deficiency of $357,600 for special adult programs. The deficiency is attributable to an increase in the number of uncollected emergency loans provided to SSI/SSP recipients.

Budget Year Proposal

The budget proposes an appropriation of $3,728,800 from the General Fund for special adult programs administered by the Department of Social Services in 1981–82. This is a decrease of $1,990,216, or 34.8 percent, below estimated current year expenditures.

Table 1
Special Adult Programs
1980–81 and 1981–82

Program	Estimated 1980-81				Proposed 1981-82				Percent Change			
	County	*State*	*Federal*	*Total*	*County*	*State*	*Federal*	*Total*	*County*	*State*	*Federal*	*Total*
Special circumstances	-	$1,981,200	-	$1,981,200	-	$2,052,700	-	$2,052,700	-	3.6%	-	3.6%
Special benefits	-	113,500	-	113,500	-	114,300	-	114,300	-	0.7	-	0.7
Aid to the potentially self-supporting blind	-	1,424,400	-	1,424,400	-	1,561,800	-	1,561,800	-	9.6	-	9.6
Emergency loan program	-	1,409,800[a]	-	1,409,800	-	-	-	-	-	−100.0	-	−100
Repatriated Americans	-	-	$53,000	53,000	-	-	$53,000	53,000	-	-	-	-
Indochinese refugees cash assistance	-	-	70,480,800	70,480,800	-	-	94,893,200	94,893,200	-	-	34.6%	34.6
Cuban refugees cash assistance	-	-	781,300	781,300	-	-	1,658,800	1,658,800	-	-	112.3	112.3
Other refugees cash assistance	-	-	3,670,500	3,670,500	-	-	6,455,300	6,455,300	-	-	75.9	75.9
Cuban refugees general relief	$1,161,500	-	355,900	1,517,400	$1,167,300	-	232,900	1,400,200	0.5%	-	−34.6	−7.7
Low income energy assistance administration	-	790,116	-	790,116	-	-	-	-	−1	−100	-	−100
Totals	$1,161,500	$5,719,016[a]	$75,341,500	$82,222,016	$1,167,300	$3,728,800	$103,293,200	$108,189,300	0.5%	−34.8%	37.1%	31.6%

[a] Includes $123,000 from the Emergency Revolving Fund.

Total expenditures for this item are proposed at $108,189,300, an increase of $25,967,284, or 31.6 percent, over estimated current year expenditures. The federal government will pay $103,293,200, or 95.5 percent, of this amount. Total federal expenditures in this program, except $285,900, are for cash grants to refugees who normally would not be eligible for assistance under the AFDC program. Due to a federal law, however, these refugees will receive a grant equal to the AFDC payment standard. This cash assistance is time-limited to three years from the date that the refugee enters the country. At the end of the three-year period, the refugee will either receive county-funded general relief or no assistance. Table 1 shows the proposed expenditures for special adult programs in 1981–82.

Special Circumstances

The special circumstances program provides adult recipients with special assistance in times of emergency. Payments can be made for replacement of furniture, equipment, or clothing which is damaged or destroyed by a catastrophe. Payments also are made for moving expenses, housing repairs and emergency rent.

The budget proposes $2,052,700 for grants under the special circumstances program for 1981–82. This is an increase of $71,500, or 3.6 percent, over estimated current year expenditures.

Special Benefits

This program contains funds for (a) SSP recipients who have guide dogs and (b) recipients who receive assistance as a result of the *Harrington -vs- Obledo* court case. The guide dog program provides a special monthly allowance to cover the cost of dog food. The budget proposes General Fund expenditures of $108,900 for these allowances in 1981–82.

The *Harrington -vs- Obledo* court case concerns two welfare recipients who received aid under California's adult welfare program, but who were not eligible to receive aid under the SSI/SSP program when it replaced the categorical aid programs on January 1, 1974. The California Court of Appeals ruled that the two plaintiffs were entitled to assistance at state expense. State expenditures for this assistance are proposed at $5,400 in the budget year.

Aid to the Potentially Self-Supporting Blind

The Aid to the Potentially Self-Supporting Blind (APSB) program provides payments to blind recipients who earn more income than is allowed under the basic SSI/SSP program. The program encourages these individuals to become economically self-supporting. The budget proposes $1,561,800 for 1981–82, which is an increase of $137,400, or 9.6 percent, over estimated current year expenditures. The increase is due to: (a) a proposed 4.75 percent cost-of-living adjustment and (b) an increase in caseload.

Emergency Loan Program

Chapter 1216, Statutes of 1973, mandates that counties provide emergency loans to aged, blind and disabled recipients whose regular monthly checks from the federal Social Security Administration have been lost, stolen or delayed. The budget assumes enactment of legislation which would eliminate this program effective July 1, 1981.

There are two types of costs related to this program: (1) uncollected loans and (2) administrative costs. Counties are required to initiate collection efforts before determining that a loan is uncollectable. If the county is unable to collect the loan

SPECIAL ADULT PROGRAMS—Continued

from the SSI/SSP recipient, the county may submit a claim for state reimbursement. The department estimates that the counties will be unable to collect repayments in 491 cases in the current year. As a result, state costs to reimburse counties for uncollected loans in 1980–81 are estimated at $1.4 million. County administrative costs, which are funded 100 percent by the state, are estimated at $0.5 million in 1980–81.

Temporary Assistance for Repatriated Americans

The federal repatriate program is designed to provide temporary help to needy U.S. citizens returning to the United States from foreign countries because of destitution, physical or mental illness or war. Recipients can be provided temporary assistance to meet their immediate needs and continuing assistance for a period of up to 12 months. County welfare departments administer the program based on federal and state guidelines. The program is 100 percent federally funded. Expenditures for the budget year are proposed at $53,000, the same amount estimated to be expended in the current year.

Refugees—Cash Assistance

In March 1980, President Carter signed the Comprehensive Refugee Act of 1980 (PL 96-212), which extended 100 percent federal funding for refugee assistance through March 30, 1981. Effective April 1, 1981, 100 percent federal funding of cash assistance is limited to three years from the date the refugee entered the country.

Federal funds for cash grants to refugees who do not meet the eligibility requirements for the AFDC program, but who, due to federal law, are receiving a grant equal to the AFDC payment standard are contained in Item 518-101-866(d), Refugee Programs. The budget proposes expenditures of $103,007,300 from federal funds for these costs. This is an increase of $28,074,700, or 37.5 percent, over estimated current year expenditures. The significant increase in expenditures is due to projected caseload growth. The department estimates that the number of refugees receiving assistance under this special program will increase from approximately 41,614 in the current year to 57,772 in the budget year,an increase of 16,158 recipients, or 38.8 percent.

Department of Social Services

COUNTY ADMINISTRATION OF WELFARE PROGRAMS

Item 518–101 (d) from the General Fund — Budget p. HW 169

Requested 1981–82	$110,092,643
Estimated 1980–81	102,249,654
Actual 1979–80	87,406,111
Requested increase $7,842,989 (+7.7 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Cost-of-Living Increases for County Welfare Departments. Recommend adoption of control language to limit funds appropriated by the Budget Bill for county cost-of-living increases for personal, and 1009

nonpersonal, services to the amount consistent with the percentage increase authorized by the Legislature. Further recommend adoption of supplemental language directing the department to administer the 1981–cost control plan accordingly.

2. Performance Standards for Administering the AFDC Program. Recommend:
   a. General Fund Reduction of $4,393,213 from Item 518-101-001(a), AFDC cash grants, because funds are overbudgeted given the application or fiscal sanctions. 1016
   b. Department advise the Legislature during budget hearings on:
   1. Criterion to be used to eliminate or reduce amount of county fiscal liability for October 1979–March 1980. 1016
   2. Whether counties will be held fiscally liable for high error rates for April–September 1980 review period. 1017
   3. Whether counties can be held fiscally liable using regulations not in effect throughout the October 1980–March 1981 review period. 1017
   c. Department submit a plan to the Legislature for reducing error rates in specified counties. 1018

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation for the state's share of costs incurred by the counties for administering: (a) the AFDC program, (b) the Food Stamp program, and (c) special benefits and emergency payment programs for aged, blind, and disabled recipients. In addition, it identifies the federal and county costs of administering cash assistance programs for refugees. The costs for training county eligibility and nonservice staff also are included in this item.

ANALYSIS AND RECOMMENDATIONS

Current Year Deficiency

The budget estimates that there will be a deficiency of $4,632,254 in county administration for 1980–81. Of this amount, $1,510,900 is due to regulations issued by the department following the *Westcott vs. Califano* court case. The remaining $2,369,500 results from an unanticipated caseload increase in the food stamp program.

Budget Year Proposal

The budget proposes an appropriation of $110,092,643 from the General Fund as the state share of county administration of welfare programs in 1981–82. This is an increase of $7,842,989, or 7.7 percent, over estimated current year expenditures.

Total expenditures of $544,245,014 are proposed for county administration of welfare programs in 1981–82. This is an increase of $40,826,288, or 8.1 percent, over estimated current year expenditures. Table 1 shows the total expenditures for county welfare department administrative costs.

Table 2 shows the proposed changes in General Fund expenditures for county administration for 1981–82. The largest General Fund increase is $6,416,900 due to projected caseload increases in the nonassistance food stamp program. Three program changes proposed by the administration will reduce General Fund costs for county welfare department administration by $2,149,662. The proposed changes are (1) limit eligibility for the state AFDC-U program (–$1,233,700) (2) eliminate 80 percent supplementation of AFDC grants (–$436,900), and (3) eliminate emergency loans to SSI/SSP recipients (–$479,062).

Table 1

Expenditures for County Welfare Department Administration 1980–81 and 1981–82 (in thousands)

Program	*Estimated 1980–81*				*Proposed 1981–82*				*Percent change*			
	Federal	*State*	*County*	*Total*	*Federal*	*State*	*County*	*Total*	*Federal*	*State*	*County*	*Total*
AFDC administration	$148,761	$73,326	$73,327	$295,414	$155,133	$74,012	$74,012	$303,157	4.3%	0.9%	0.9%	2.6%
Nonassistance food stamp administration	51,018	25,509	25,509	102,035	66,299	33,150	33,150	132,599	30.0	30.0	30.0	30.0
Child support enforcement												
Welfare	52,257	—	17,419	69,677	52,264	—	17,421	69,685	—	—	—	—
Nonwelfare	13,321	—	4,440	17,761	13,321	—	4,440	17,761	—	—	—	—
Special adult programs	—	2,384	18	2,402	—	1,907	18	1,925	—	−20.0	—	−19.9
Refugee cash assistance	7,840	—	48	7,888	10,877	—	49	10,926	38.7	—	2.1	38.5
Staff training	6,182	1,030	1,030	8,242	6,144	1,024	1,024	8,192	−0.6	−0.6	−0.6	−0.6
Totals	$279,379	$102,249	$121,791	$503,419	$304,038	$110,093	$130,114	$544,245	8.8%	7.7%	6.8%	8.1%

Table 2

County Welfare Department Administration
Proposed 1981–82 General Fund Changes

	Cost	Total
1980–81 Current-Year Revised		$102,249,654
Baseline Adjustments		
A. AFDC Administration		
1. Basic caseload	$1,368,600	
2. Cost-of-living		
a. 1980–81 cost-of-living adjusted for caseload	148,500	
b. 1981–82	—	
3. Refugees	265,500	
4. Court cases		
a. Westcott	328,100	
b. Others	9,100	
5. Special adjustments		
a. Limit AFDC/U-state eligibility	−1,233,700	
b. Eliminate 80 percent supplementation	−436,900	
6. Other adjustments	236,711	
Subtotal		$685,911
B. Nonassistance Food Stamps		
1. Basic caseload	$6,416,900	
2. Cost-of-living		
a. 1980–81 cost-of-living adjusted for caseload	777,800	
b. 1981–82	—	
3. Refugees	504,500	
4. Other	−58,304	
Subtotal		$7,640,896
C. Special Adults		
1. Special adjustments		
a. Eliminate emergency loans to SSI/SSP recipients	−$479,062	
2. Other	1,544	
Subtotal		−$477,518
D. Staff Development		−$6,300
E. Total Budget Increase		($7,842,989)
F. General Fund Expenditures		$110,092,643

Cost-of-Living Increases for County Welfare Department Employees

We recommend adoption of control language which would limit funds appropriated by the Budget Bill for county cost-of-living adjustments for personal, and nonpersonal services, to an amount consistant with the percentage increase authorized by the Legislature. We further recommend adoption of supplemental language directing the department to administer the 1981–82 cost control plan accordingly.

Item 518(d) appropriates $110,092,643 as the state's share of costs for county administration of welfare programs. This amount does not contain the state's share of funds to provide a cost-of-living increase to county employees during 1981–82.

Under current law, costs for county administration of the AFDC and food stamp programs are shared by the federal government (50 percent), state government (25 percent), and county government (25 percent). Unless control language is added to the Budget Bill, the state is obligated to reimburse the counties for its share of cost-of-living increases provided by local governments to their employees.

In the current fiscal year, the Legislature appropriated funds to provide a 9

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

percent cost-of-living adjustment for county welfare department employees. The funds were intended to cover increases in personal services (salaries, and employee benefits) and nonpersonal services (operating expenses and equipment). Although the Legislature appropriated funds for a 9 percent cost-of-living adjustment, counties have granted cost-of-living increases which average 10.09 percent. Table 3 shows the cost-of-living increases for personal services (salaries, and staff benefits) provided in 1980–81 by counties with large and medium size welfare caseloads.

Table 3
Cost-of-Living Increases For Personal Services
County Welfare Department Employees
1980–81

Eleven Largest Counties	*Cost-of-Living Increase*
Alameda	Not Reported
Contra Costa	10.78%
Fresno	7.38
Los Angeles	10.73
Orange	Not Reported
Riverside	12.73
Sacramento	13.20
San Bernardino	9.27
San Diego	7.49
San Francisco	8.52
Santa Clara	Not Reported
Fourteen Medium Size Counties	
Butte	Not Reported
Humboldt	7.19
Kern	11.58
Merced	10.73
Monterey	Not Reported
San Joaquin	9.12
San Mateo	11.91
Santa Barbara	11.07
Santa Cruz	10.04
Solano	9.55
Sonoma	11.04
Stanislaus	9.15
Tulare	8.74
Ventura	6.81%

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. For example, if the Legislature appropriated funds for a 4 percent increase but the counties granted a 9 percent adjustment, the additional cost would be approximately $5.2 million from the General Fund and $10.1 million in federal funds. Moreover, in subsequent fiscal years, the 9 percent cost-of-living adjustment would be built into the base expenditures against which next year's increase is applied.

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 establish the policy that it is *not* obligated to pay for the cost of salary increases in excess of the percentage increase provided for by the Legislature. We recommend the Legislature establish this policy (a) to avoid possible cost overruns in the county administration item and (b) to avoid different percentage increases for state and county emloyees. 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) instructs the department to administer the 1981–82 cost control plan accordingly. The following Budget Bill language is consistent with this recommendation:

"Provided further, that notwithstanding any provision of law to the contrary, none of the funds appropriated by this act for Program 10.20, county administration, shall be used by counties to provide a cost-of-living increase to county welfare departments for personal, and nonpersonal services, which exceeds the percentage increase authorized by the Legislature in this act for 1981–82.

"Provided further, that the 1981–82 county administrative cost control plan for program 10.20, county administration, 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 to limit state funds for county cost-of-living increases in the budget year, any cost-of-living adjustments granted and paid for by the counties which exceed the percentage increase for which state funds are available in 1981–82 would automatically be built into the following year's budget for county administration. To prevent this from happening, we recommend that the Legislature instruct the department to operate the cost control plan in such a manner that any cost-of-living increase provided by counties for 1981–82 above the amount of state reimbursement shall be a permanent county fiscal obligation. The following supplemental report language is consistent with this recommendation:

"The department's 1982–83 request for funds for county administration shall not include the cost of any 1981–82 cost-of-living increases for personal, and nonpersonnel services 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 increases granted in excess of the percentage approved by the Legislature shall be a permanent county fiscal obligation. The department shall maintain documentation which indicates that county cost-of-living increases granted by counties which exceed the amount of state reimbursement shall be excluded from the 1982–83 funding requests made in January and May 1982. Finally, the 1981–82 and 1982–83 county administrative cost control plans shall contain a provision which explicitly provides that any county authorized increases for personal and nonpersonal services provided in 1981–82 which exceed the percentage increase authorized in the Budget Act of 1981 shall be the permanent fiscal obligation of the county."

Performance Standards for the Administration of the AFDC Program

We recommend:

1. *A General Fund reduction of $4,393,213 from Item 518-101-001 (a), AFDC cash grants, because funds are overbudgeted given the application of fiscal sanctions.*
2. *The Director of the Department of Social Services advise the Legislature during budget hearings on:*

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

(a) *The criterion he will use to eliminate or reduce the amount of the fiscal liability assessed on 13 counties for the review period of October 1979–March 1980.*

(b) *Whether counties will be held fiscally liable for errors which exceed the statewide error rate during the April–September 1980 review period.*

(c) *Whether counties can be held fiscally liable using regulations which were not in effect throughout the October 1980–March 1981 quality control period.*

3. *The department submit a plan to the Legislature prior to the budget hearings for reducing the error rates in specified counties.*

Background. As a result of SB 154 in 1978, the state assumed the county share of grant costs for the AFDC program for 1978–79, while the counties continued to administer the program. In addition, the act gave the Director of the Department of Social Services the authority to establish a statewide error rate standard against which the performance of counties in their administration of the AFDC program could be measured. Furthermore, the act authorized the director to hold counties financially liable for errors above the statewide error rate standard. Under this provision of SB 154, the director can recoup funds misspent by counties in excess of the statewide performance standard.

The department issued regulations establishing a 4 percent payment error rate standard for 1978–79. The payment error rate consists of payments to ineligible recipients and overpayments to eligible recipients.

AB 8 incorporated the provision of SB 154 concerning county liability for high error rates. In addition, AB 8 required that the Joint Legislative Budget Committee be notified of the performance standard for 1979–80, and that beginning with fiscal year 1980–81, the standard be established annually in the Budget Act. The 1980 Budget Act established a 4.0 percent error rate standard for the review period of October 1980–March 1981 and a 3.75 percent standard for April–September 1981. The 1981 Budget Bill proposes a 4.0 percent standard for October 1981–September 1982.

The federal government has issued regulations which provide that federal matching funds will not be available for erroneous expenditures by states in excess of a specified error rate standard. Federal regulations require that states achieve a payment error rate of 4.0 percent for the quality control periods of October 1, 1982–September 30, 1983. In addition, the regulations require the states to reduce their error rates by one-third decrements starting with the October 1980–September 1981 review period. Failure of states to achieve the interim reductions or the ultimate 4.0 percent level will result in a reduction in federal financial participation. The department indicates that because California's error rate in the base period (April–September 1978) was below 4.0 percent, the state must achieve the 4.0 percent standard for the review period of October 1980–September 1981 and subsequent review periods.

California's Error Rate. Historically, California's error rates for the administration of the AFDC program have been among the lowest of all states. Similarly, among the states with the largest caseloads, California has had one of the lowest error rates. Table 4 compares California's error rate with those of six other states for the three quality control review periods between April 1978 and September 1979. The table shows that during this period:

- California's payment error rate was below the national average in each of the review periods. During April–September 1978, California's error rate was 3.7 percent while the national average was 9.4 percent. New York, with an 8.8 percent error rate, came closest to California's performance. During the October 1978–March 1979 review cycle, when California's error rate increased to 7.2 percent, the national average was 10.4 percent. In the last review period for which national data are available, California's error rate was 7.8 percent and the U.S. average was 9.5 percent.

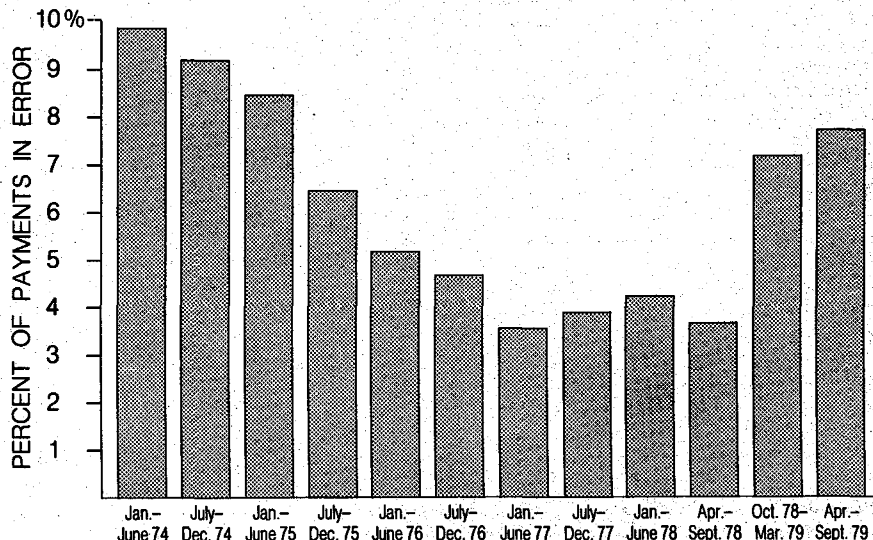
- California's error rate almost doubled—it increased by 95 percent—between the review periods of April–September 1978 and October 1978–March 1979. During the same period, the error rate nationwide increased 10.6 percent.
- California's error rate increased again during the April–September 1979 period from 7.2 percent to 7.8 percent. During the same period, the error rate for the six states as well as the nation decreased. In sum, California's error rate which was significantly below the national average on September 30, 1978, more than doubled during the following 12-month period.

Table 4
AFDC Payment Error Rates [a]
April 1978–September 1979

State	*April–September 1978*	*October 1978–March 1979*	*April–September 1979*
California	3.7%	7.2%	7.8%
Illinois	17.1	13.8	11.9
Massachusetts	15.9	24.8	22.4
Michigan	9.2	10.3	9.6
New York	8.8	10.3	8.8
Ohio	9.5	11.9	9.1
Pennsylvania	16.3	11.9	9.7
U.S. Average	9.4	10.4	9.5

[a] Includes technical errors.

Chart 1
Statewide AFDC Payment Error Rates[a]
January 1974 to September 1979



[a] Federal Findings. Combined payment error rates for overpayments and payments to ineligibles.

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

Chart 1 shows the trend in California's payment error rate between January 1974 and September 1979. During that period, the error rate decreased from a high of 9.8 percent in January–June 1974 to a low of 3.5 percent in January–June 1977. Since June 1977, California's error rate has more than doubled from 3.5 percent to 7.8 percent, as of September 1979.

California's most recent error rate of 7.8 percent represents misspent funds totaling $70,336,000. Of this amount, the state share is $33,794,600, the county share is $1,963,000, and the federal amount is $34,623,400. The Department of Social Services has pointed out that the error rate of 7.8 percent includes errors related to the treatment of social security numbers over which the federal government

Table 5
Thirty-Five Largest Counties
AFDC Payment Error Rates[c]
October 1978—March 1980

County	*October 1978–March 1979*	*April–September 1979*	*October 1979–March 1980*
Alameda[a]	5.9%	8.8%	11.0%
Butte	1.7	1.0	1.3
Contra Costa[b]	7.3	8.4	3.9
Fresno	3.9	3.0	3.0
Humboldt	1.4	1.9	2.7
Imperial	4.0	3.7	–[e]
Kern	0.8	0.6	2.0
Kings	3.7	5.3	3.9
Los Angeles	7.4	2.2	2.9
Madera	3.7	2.8	2.5
Marin[a]	5.7	4.9	5.9
Mendocino	4.5	1.5	1.5
Merced[b]	4.1	3.4	6.6
Monterey[b]	4.0	5.6	9.2
Orange[a]	4.8	5.5	6.4
Placer	–[d]	3.0	3.9
Riverside	3.2	2.7	4.0
Sacramento	2.4	3.6	4.3
San Bernardino[b]	7.3	3.7	13.4
San Diego[a]	9.5	5.2	7.1
San Francisco[a]	10.7	9.6	10.6
San Joaquin	3.3	1.0	2.6
San Luis Obispo	6.6	2.5	1.3
San Mateo[a]	8.5	5.1	5.1
Santa Barbara[b]	4.4	4.2	3.3
Santa Clara	3.6	6.3	3.6
Santa Cruz	3.3	1.6	2.9
Shasta	3.5	3.4	4.5
Solano[b]	2.9	4.7	5.6
Sonoma[a]	7.2	6.8	7.5
Stanislaus	1.4	2.9	3.2
Tulare	1.9	6.0	1.3
Ventura	5.1	3.1	3.9
Yolo[b]	3.4	6.6	10.5
Yuba	0.9	2.4	0.5

[a] Error rates above 4 percent for each of the three review periods.
[b] Error rates above 4 percent for two out of three review periods.
[c] Excludes social security enumeration errors, includes WIN registration errors.
[d] Reliable error rate data not available due to insufficient number of cases being completely reviewed.
[e] Reliable error rate data not available due to disruption caused by the October 1979 earthquake.

and California currently have a policy difference. If social security enumeration errors are excluded, the state's error rate is 5.6 percent. The adjusted error rate represents misspent funds totaling $50,497,600, of which the state share is $24,230,500. In 1979–80, each 1 percent of error cost the General Fund an estimated $9.6 million.

County Error Rates. Prior to October 1978, the department collected county specific error rate data for the 15 counties with the largest caseloads. After enactment of SB 154 and the state buy-out of county costs for the AFDC program, the state expanded its quality control sample to the 35 largest caseload counties.

Table 5 shows the error rates for the 35 largest counties for the three periods between October 1978 and March 1980. The department established a 4 percent performance standard for the three quality control periods shown in Table 5. During this time, 14 counties exceeded the error rate standard for two or more review periods. Seven counties had error rates above the 4 percent standard for each of the three review cycles. An additional seven counties had error rates above 4 percent for two out of three review periods.

Legislative Action. Under current law, the Director of the Department of Social Services has the authority to hold counties financially liable for high error rates. The Supplemental Report of the 1980 Budget Act required the department to submit a report concerning the future use of fiscal sanctions. The report was to identify (a) the review period for which counties would be financially liable for high error rates, (b) the circumstances under which counties would not be held liable even though they exceeded the error rate standard, and (c) features to be included in calculating the error rate.

Department to Hold Counties Fiscally Liable for Excessive Errors Using Current Regulations. In his report to the Legislature dated January 1981, the Director of the Department of Social Services stated that fiscal santions would be applied against counties with error rates above 4 percent for the October 1979–March 1980 review period. The director assessed such sanctions on January 8, 1981. Table 6 shows the counties which were sanctioned, their error rates, the amount of misspent state funds, and the amount of the fiscal sanction. It should be noted that of the 13 counties which were sanctioned, five had exceeded the statewide error rate (4 percent) for three consecutive review periods. An additional three counties had error rates above 4 percent for two out of three review periods.

General Funds Overbudgeted Based on Department's Plan to Hold Counties Fiscally Liable for High Error Rates. The director of the department has indicated that no funds will be withheld from counties while they are appealing the fiscal sanctions for the October 1979–March 1980 review period. Upon completion of the administrative appeal process, however, the state will reduce its share of funds which are advanced to the counties for AFDC assistance payments by the amount of the fiscal sanction. Because of the time required for the administrative appeal process, the department will probably not be able to recoup the misspent funds during the current year.

Our analysis indicates that the department will be able to withhold the amount of the fiscal sanction from county advances in 1981–82. The proposed General Fund appropriation for AFDC cash grants for 1981–82 has not been reduced by the amount of the fiscal sanctions proposed by the department. As a result, General Fund support for Item 518-101-001 (a), AFDC cash grants, is overbudgeted. We therefore recommend a General Fund reduction of $4,393,213 from Item 518-101-001 (a) because the state will be able to recover these funds during the budget year from the counties.

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

Table 6
Fiscal Sanctions for High Error Rates [a]
October 1979–March 1980

County	*Error Rate*	*Amount of Misspent State Funds*	*Amount of Sanction*
Alameda [b]	5.74%	$1,390,429	$944,597
Marin [b]	4.36	57,112	10,568
Merced	6.47	219,747	188,008
Monterey [c]	8.01	349,967	392,645
Orange	4.16	605,086	52,156
Sacramento	4.37	981,143	186,172
San Bernardino [c]	6.91	1,366,738	1,289,914
San Francisco [b]	6.48	840,853	721,203
San Mateo [b]	4.10	192,190	10,505
Shasta	4.48	123,601	29,679
Solano	4.70	200,655	66,975
Sonoma [b]	6.92	326,973	309,207
Yolo [c]	8.32	164,641	191,584
Totals		$6,819,135	$4,393,213

[a] Error rates are *lower* than those shown in Table 5 because the rate used by the director: (1) excluded "technical errors" such as social security enumeration and WIN registration, and (2) were prior to inclusion of quality control findings by State staff.
[b] Error rate had been above 4 percent for the last three review periods, including October 1979–March 1980.
[c] Error rate had been above 4 percent for two out of the last three review periods, including October 1979–March 1980.

Criterion for Appealing Sanctions is Unclear. The department's report to the Legislature states that counties may appeal the sanction based upon extenuating circumstances which may have affected their performance. If "good cause" is found, the director may eliminate or reduce the amount of fiscal liability. The report does not specify the criterion to be used to determine if "good cause" exists to reduce or eliminate the amount of the sanction. In order that the Legislature may be informed of circumstances under which an appeal will be approved, we recommend that the department report during the budget hearings on the criterion it will use to eliminate or reduce the amount of the fiscal sanction.

Department Proposes to Revise Current Sanction Regulations. In the January 1981 report, the director stated that it was his intent to revise the current state sanction regulations and to make the revised regulations effective retroactively to October 1980. A comparison of the major features of the department's proposed regulations with the current regulations that the federal government would utilize to sanction the states for excessive errors, follows:

1. ***Error Rate Must be Above the State Performance Standard for Two Consecutive Review Periods.*** The department's proposal provides that fiscal sanctions will be applied when the county's error rate is above the state's performance standard for two consecutive review periods (a total of 12 months). In addition, the plan provides that county performance below the statewide error rate standard in one 12-month period can reduce or eliminate the sanction amounts in the next 12-month period. This "banking" feature is not contained in existing federal regulations.
2. ***"Client Caused" Errors Will Be Included.*** The department proposes to include "client caused" errors when determining a county's error rate. This feature is consistent with current federal regulations.

3. ***Technical Errors Will Be Excluded.*** Technical errors include the county's failure to have a recipient's social security number on file or the failure of a recipient to register for the Work Incentive (WIN) program. The department proposes to exclude these errors when determining a county's error rate because it maintains that such errors do not result in misspent funds. Current federal regulations include technical errors for purposes of applying future fiscal sanctions against the states.

4. ***Use of the Lower Limit of the Point Estimate as the Error Rate.*** Quality control reviews produce a point estimate of a county's error rate. The reviews also produce a range above and below the point estimate in which the "true" error rate would fall if every case in a county, rather than a statistical sample, were reviewed. For example, survey findings may show that a county's error rate is 5.0 percent plus or minus 1.0 percent. This means that there is a certain probability that the error rate for the county could be as low as 4.0 percent or as high as 6.0 percent. The department has elected to use the lower limit of the error rate (4.0 percent in the example above) when applying sanctions. Under current regulations, the federal government would use the point estimate, not the lower limit if it were to apply sanctions against California.

5. ***County Appeals.*** Counties could appeal a fiscal sanction based on circumstances outside of the county welfare department's control. Circumstances outside of county control could include, for example: (a) disasters, (b) strikes or work actions, and (c) incorrectly written state policy. The federal government allows waiver of the sanction based on a finding of a "good faith effort" by the state to reduce its error rate.

Department's Plans to Apply Sanctions During April–September 1980 is Unclear. In his January report to the Legislature, the director stated that he will apply sanctions for the review period October 1979–March 1980. In addition, the director indicated his intent to apply sanctions using revised regulations starting with the October 1980–March 1981 review period. The department's report is silent, however, on its plans to apply sanctions for the intervening review period of April–September 1980. In order that the Legislature is aware of the department's plans, we recommend that the department advise the Legislature during budget hearings as to whether or not it will hold counties fiscally liable for high error rates during the April–September 1980 review period.

Department's Authority to Apply Sanctions Based on Retroactive Regulations Is Uncertain. In his report to the Legislature, the director stated his intention to revise the current sanction regulations and to apply the revised regulations starting with the review period of October 1980–March 1981. At the time this Analysis was written, the department had not issued revised regulations. We are unable to advise the Legislature when the revised regulations will be issued and to what extent the final regulations will reflect the department's current proposal. Moreover, it is uncertain whether the department can apply fiscal sanctions based on regulations which are to take effect retroactively.

We recommend that the department be prepared to inform the Legislature during the budget hearings if it can hold counties fiscally liable using regulations which were not in effect throughout the October 1980–March 1981 quality control period. If the department determines that the revised regulations cannot be applied during this period, it should be prepared to advise the committee of its alternative plans.

Corrective Action. The AFDC program management branch within the department is responsible for supervising county administration of the AFDC program in California. Within the branch, the program operations bureau provides assistance to county welfare departments in the administration of the AFDC

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

program, including assistance in county specific corrective action efforts. This bureau is currently authorized 15 permanent professional positions. In addition to this bureau, the program systems bureau is authorized 10.5 permanent professional positions responsible for implementing statewide changes in welfare administrative systems for corrective action purposes.

On January 22, 1981, the department provided our office with a document identifying the statewide corrective actions undertaken by state staff since 1979, as well as those currently underway. In addition, the report summarized the corrective actions underway by state and county staff in 15 counties with error rates above 4 percent.

As Table 5 on page 1014 shows, seven counties have had error rates above the statewide standard (4 percent) for the last three review periods. An additional seven counties have had error rates above 4 percent in two out of three review periods. Because of the continued high error rate in the 14 counties, we recommend that the department, in cooperation with the counties, submit a report to the Legislature prior to the budget hearing stating how it plans to reduce the error rates in the 14 counties. The report should identify for each of the 14 counties: (a) the specific type of assistance which state staff will provide, (b) the type of errors which will be reduced, (c) the specific corrective actions, in order of priority, which will be implemented by the county to reduce identified errors, (d) a time table for implementing the corrective actions, and (e) the method for evaluating the effectiveness of the planned corrective action.

SPECIAL SOCIAL SERVICES AND COMMUNITY CARE LICENSING PROGRAMS

Item 518-101(e) and (f), from the General Fund — Budget p. HW 172

Requested 1981–82	$150,678,638 [a]
Estimated 1980–81	187,948,622
Actual 1979–80	157,982,830
Requested decrease $37,269,984 [a] (−19.8 percent)	
Total recommended reduction	$7,848,749
Total recommendation pending	$32,398,314

[a] Reflects replacement of $52,013,942 from the General Fund with equivalent federal funds. Special social services program General Fund expenditures are proposed to increase by $14,743,958, or 7.8 percent over estimated 1980–81 expenditures.

1981–82 FUNDING BY ITEM AND SOURCE

Item	Description	Fund	Amount
518-101-001 (e)—Social services program		General	$143,782,101
518-101-001 (f)—Community care licensing		General	6,463,700
Budget Act of 1978, Item 274		General	432,837
Total			$150,678,638

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. *Unbudgeted Federal Title IV-B Funds. Reduce by $7,310,123.* 1031 Recommend anticipated federal funds be scheduled in the Budget Bill for a savings in overbudgeted General Fund support of $7,310,-123.
2. Transfer of Foster Care Costs to Title IV-A. Recommend Depart- 1032 ment of Finance advise Legislature of anticipated General Fund savings prior to budget hearings. Further recommend Budget Bill language requiring reduction of General Fund support by the amount of federal fund increase to prevent overbudgeting and ensure legislative review of appropriations.
3. Control of Program Appropriations. Recommend detailed 1033 Budget Bill schedule of social services programs. Further recommend language requiring advance notification to the Legislature when funds are to be transferred among these programs, to ensure legislative review of program expenditures.
4. Social Services Planning Act. Recommend Department of Fi- 1034 nance include in its 1980–81 progress report a description of a process for weighting state and county priorities. Further recommend supplemental report language requiring that a design for prediction of program utilization be submitted to the Legislature by September 1, 1981.
5. Cost-of-Living Increase for County Employees. Recommend 1035 adoption of Budget Bill and supplemental report language limiting state liability for county cost-of-living adjustments to the cost-of-living percentage increase authorized by the Legislature.
6. In-Home Supportive Services. Withhold recommendation on 1040 $27,398,314 from the General Fund pending receipt of (a) report required by the 1979 Budget Act and (b) report and plans for corrective action for the April to October 1980 quality control review period.
7. In-Home Supportive Services Payrolling System. Recommend 1042 adoption of Budget Bill language requiring (a) a feasibility study report be submitted to the Joint Legislative Budget Committee by September 1, 1981 and (b) a competitive bid process be implemented upon expiration of current contract to select most cost-effective vendor.
8. Twenty-Four-Hour Emergency Response System. Withhold rec- 1045 ommendation on $7,929,319 ($5,000,000 General Fund and $2,929,-319 federal funds), pending review of (a) a report submitted January 20, 1981 and (b) actual expenditures during 1979–80.
9. ***Community Care Licensing. Reduce by $371,134.*** Recommend 1046 deletion of unjustified tasks from workload standard, for a General Fund reduction of $371,134.
10. ***Adoptions Cost Per Placement. Reduce by $167,492.*** Recom- 1048 mend cost per placement be based on full year rather than single quarter experience, for a General Fund reduction of $167,492.
11. Federal Funds for Refugees. Recommend Department of Fi- 1049 nance advise the Legislature during 1981 budget hearings regarding the administration's plans in the event the state does not receive federal funds anticipated in the budget.
12. Title XX Training. Recommend Department of Finance advise 1050 the Legislature regarding the administration's plans in the event the state does not receive federal funds anticipated in the budget.

DEPARTMENT OF SOCIAL SERVICES—Continued

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers various social services programs which provide *services* to eligible clients rather than *cash* as in the AFDC and SSI/SSP programs. The programs differ from each other in the nature of the services provided, the characteristics of clients served, the source of funding, and the agency that delivers the service.

Social services programs are administered by the Adult and Family Services and Community Care Licensing Divisions of the department. The budget includes seven programs: (1) other county social services, (2) specialized adult services, (3) specialized family and children's services, (4) adoptions, (5) county staff development and services training, (6) demonstration projects, and (7) community care licensing. The major components of these programs are identified below.

Title XX Social Services

The largest group of programs funded through this item are those operated pursuant to Title XX of the federal Social Security Act. The Department of Social Services is the single state agency designated to receive federal social services funds under this title. Federal Title XX regulations require that at least three services be provided for SSI/SSP recipients, and that at least one service be directed to achieving each of the five federal Title XX program goals of (1) self-support, (2) self-sufficiency, (3) protection of children and adults and reunification of families, (4) prevention or reduction of inappropriate institutional placements, and (5) institutionalization only when necessary.

Federal financial participation in state Title XX programs is contingent on preparation of a statewide Comprehensive Annual Services Program (CASP) plan. Under the provisions of Public Law 96-272, enacted in May 1980, the states may choose to prepare the CASP annually or on a multi-year basis. The CASP must identify and describe (a) the services to be provided within the Title XX program, (b) the specific target groups for each service, and (c) the structure of the social services delivery system. Federal regulations allow each state to establish a delivery system that is most appropriate to the state's Title XX needs.

County-Administered Services. County welfare departments administer the majority of California's Title XX social services. State law and regulations (1) require counties to provide 10 specific services and (2) permit counties to offer any of 13 additional services. One of the 10 mandated activities is In-Home Supportive Services (IHSS). The 22 remaining services comprise the Other County Social Services (OCSS) program.

Of the 10 mandated activities, four are required to be available to all persons: information and referral, protective services for adults, protective services for children, and court ordered foster care. Other services are provided to individuals who receive SSI/SSP or AFDC, or who are eligible because of their low income. Federal regulations require that 50 percent of all clients receiving services supported by federal Title XX funds must receive or be eligible for (a) AFDC, (b) SSI/SSP, *or* (c) Medi-Cal.

State-Administered Services. The budget proposes the expenditure of federal Title XX funds for family planning services administered by the Department of Health Services. Federal regulations do not require family planning services to be offered as part of the state's Title XX program. The federal government, however, may withhold financial participation in the state's AFDC program if family planning services are not made available to AFDC recipients. Federal funds received by the Department of Social Services as the single state agency responsible for Title XX are transferred to the Department of Health Services under the terms of an interagency agreement.

Federal Title XX Allocations. Based on its share of the nation's total population, California receives slightly more than 10 percent of the federal funds available each year from Title XX of the Social Security Act. Prior to passage of PL 96-272, there was a nationwide *authorization* ceiling of $2.5 billion. Public Law 96-272 contains provisions which increase this national ceiling each fiscal year until 1985. The federal ceiling on nationwide Title XX reimbursements is set at $2.9 billion in federal fiscal year 1981 and $3.0 billion in federal fiscal year 1982.

Title XX Matching Requirments. Federal law requires that federal Title XX funds expended on most social services be matched on a 75:25 federal/nonfederal sharing basis. Family planning services, however, require only a 10 percent nonfederal match. Special federal fund augmentations for child development programs made in past years have not required state or local matching funds. Because federal Title XX funds are capped, state and local funds must be used not only for the nonfederal match but for any expenditures that exceed the federal allocation. California is now providing support for social services which far exceeds the required 25 percent nonfederal match.

Other Social Services

In addition to Title XX social services, the department is responsible for administering the following social services programs:

1. Child welfare services which are funded under Title IV-B of the Social Security Act. These funds are used to supplement the Title XX protective services for children.
2. Maternity care services, which are funded from a continuing annual General Fund appropriation of $2.4 million pursuant to Section 16151 of the Welfare and Institutions Code. These funds are used to reimburse nonprofit licensed maternity homes for the cost of care and services provided to unmarried pregnant women.
3. Work Incentive Program (WIN) social services, which are funded 90 percent by federal funds and 10 percent by the General Fund. Federal law requires that all nonexempt AFDC applicants register with local WIN sponsors to receive employment and job training services. Through local separate administrative units (SAUs), the Department of Social Services administers the delivery of supportive social services, including child care, for WIN participants. These SAUs are generally operated by county welfare departments.
4. Services to Indochinese refugees, which are 100 percent federally-funded. These social services, job training, and English language instruction programs are delivered by county welfare departments and private contractors.
5. Adoption services delivered by counties which are 100 percent federally-funded. (The cost of adoption case work conducted directly by the state is budgeted in Item 518—Departmental Support.)
6. Community care licensing services provided by counties, under contract with the state, which are 100 percent state-funded. (Facilities evaluation and licensing conducted directly by state personnel are included in Item 518—Departmental Support.)
7. Demonstration programs which are funded individually by the state or federal government. These are intended to test alternative programs and procedures to existing social services delivery systems.
8. County staff development and training programs which are supported by federal Title XX funds and matched with state, county, and university funds. These programs are directed at both long-term skill needs and short-term training needs of Title XX service workers.

DEPARTMENT OF SOCIAL SERVICES—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes expenditures of $150,678,638 from the General Fund for social services programs in 1981–82. This is a decrease of $37,269,984, or 19.8 percent, below estimated current year expenditures. The General Fund reduction of $37.3 million does not represent an overall reduction in services. The major component of the proposed reduction is a replacement of $52.0 million in General Fund support for social services programs with equivalent federal funds budgeted in past years for child development programs. The General Fund commitment for social services programs is actually proposed to increase by $14.7 million rather than decrease by $37.3 million. This funding shift is described in more detail below.

Table 1

Proposed 1981–82 General Fund Budget Adjustments For Special Social Services and Community Care Licensing Programs

	Adjustment	*Total*
A. 1980–81 Current Year Revised		$187,948,622
B. Budget Adjustments		
1. In-home supportive services		
a. Title XX funding shift	–$52,013,942	
b. Additional Title XX allocation	–601,791	
c. Caseload growth (6.49 percent)	16,233,408	
d. 1981–82 statutory cost-of-living (4.75 percent)	1,368,820	
e. Minimum wage increase (January 1981)	7,633,525	
f. Provider benefits (Chapter 463, Statutes of 1978)	2,163,346	
g. Restaurant meal allowance	–785	
Subtotal		–$25,217,419
2. Adoptions		
a. Caseload growth (2.5 percent)	378,136	
b. 1980–81 cost-of-living	34,200	
c. Indian Child Welfare Act (PL 95-608)	1,860	
d. Adoption fees	–9,148	
Subtotal		$405,048
3. Community Care Licensing		
a. Revised workload standards	–$1,521,800	
b. Implementation of regulations	108,700	
c. Deletion of family day care facility licensing	–7,879,300	
Subtotal		–$9,292,400
4. Demonstration Programs		
a. Termination of projects	–2,399,765	
b. Multipurpose senior services project	–627,966	
Subtotal		–$3,027,731
5. Other Programs		
a. Work incentive program—child care	59,319	
b. Transfer of access assistance for deaf to state support	–44,801	
c. Transfer of domestic violence programs to counties	–152,000	
Subtotal		–$137,482
Total Proposed General Fund Adjustments		–$37,269,984
C. Proposed Total General Fund		150,678,638
D. Other General Fund Appropriations		
1. Multipurpose senior services project		–432,837
E. General Fund in Item 518-101-001 (e) and (f)		$150,245,801

Total proposed General Fund expenditures include $150,245,801 appropriated in this item and $432,837 carried forward from the 1980 Budget Act for the multipurpose senior services project. Of the total proposed for the budget year, $6,463,700 is identified in the Budget Bill for community care licensing and $143,782,101 is proposed for special social services programs. Included in the $143,782,101 is $2,079,670 appropriated in lieu of a $2.4 million statutory appropriation (Welfare and Institutions Code Section 16151) for licensed maternity care homes.

As shown in Table 1, the major components of the anticipated decrease are (1) a replacement of $52,013,942 in General Fund support budgeted for in-home supportive services with federal funds formerly budgeted for child development programs administered by the Department of Education and (2) a reduction of $7,879,300 due to the anticipated deletion of statutory requirements to license family day care homes.

Total expenditures, all funds, for social services programs are projected to total $593,925,900 in 1981-82. This is a decrease of $26,568,157, or 4.3 percent, below total estimated expenditures in the current year. Table 2 identifies total proposed expenditures for social services programs for the budget year.

As shown by Table 2, federal funds comprise $385.8 million, or 65.0 percent of total proposed expenditures for social services programs. The availability of these funds depends on congressional action on the 1981 and 1982 federal fiscal year budgets. Congress may appropriate less for the programs identified in Table 2 than anticipated by the Governor's Budget. If this occurs, a larger amount of General Fund support may be required in 1981-82 than included in the budget. In addition, because of the overlap of state and federal fiscal years, lower federal appropriations than anticipated by the budget for the Title XX program, in particular, would result in an increased demand for General Fund support in 1982-83 in order to maintain the same level of service proposed for 1981-82.

FEDERAL FUNDING FOR SOCIAL SERVICES PROGRAMS

Title XX—State and County Overmatch

Section 15151.5 of the Welfare and Institutions Code requires that at least 66 percent of federal Title XX funds be allocated to the counties. The budget proposes that $300,413,509, or 98.7 percent, of the available Title XX funds be allocated to the counties in 1981-82. The remaining federal funds, $4,000,000 (1.3 percent of the total), are allocated to the family planning program adminstered by the Department of Health Services.

Of the $300,413,509 allocated to the counties by the budget, $153,157,180 is for IHSS, $144,327,010 is for the OCSS program and $2,929,319 is for the 24 hour emergency response system. (In addition, $9,411,631 in federal funds for social services provided by county welfare departments to Indochinese refugees is included in the budget subitems for IHSS and OCSS.)

Section 12306 of the Welfare and Institutions Code requires the state to provide the 25 percent match for federal funds used for IHSS.In order to receive federal Title XX funds, counties traditionally have been required by the annual Budget Act to provide the 25 percent match for OCSS. In addition, the state has provided General Fund support for OCSS, although it is not required by state law to do so.

DEPARTMENT OF SOCIAL SERVICES—Continued

Table 2
Total 1981–82 Proposed Expenditures
For Social Services and Community Care Licensing Programs

	General Fund in Item 518(e,f)	*Other General Fund*	*Federal Funds in Item 518(e)*	*County Funds*	*Reimbursements*	*Total*
A. Title XX Social Services						
1. In-home supportive services (IHSS)	$117,727,145	—	$153,157,180	—	—	$270,884,325
2. Other county social services (OCSS)	—	—	144,327,010	$47,802,455	—	192,129,465
3. 24-hour emergency response	5,000,000	—	2,929,319	2,643,107	—	10,572,426
4. Family Planning (DHS)	—	—	4,000,000	—	$444,444	4,444,444
Subtotals	$122,727,145	—	$304,413,509	$50,445,562	$444,444	$478,030,660
B. Title XX Training						
1. County staff development	—	—	2,507,000	835,667	—	3,342,667
2. University training	—	—	9,093,000	—	3,031,000	12,124,000
Subtotals	—	—	$11,600,000	$835,667	$3,031,000	$15,466,667
C. Refugee Assistance						
1. County social services						
a. IHSS	—	—	306,813	—	—	306,813
b. OCSS	—	—	9,104,818	—	—	9,104,818
2. Contracted services	—	—	40,482,334	—	—	40,482,334
Subtotals			$49,893,965			$49,893,965
D. Other Social Services						
1. Adoptions	$16,946,994	—	—	—	—	$16,946,994
2. Community care licensing						
a. Total cost	(14,343,000)	—	—	—	—	(14,343,000)
b. Deletion of family day care licensing	(−7,879,300)	—	—	—	—	(−7,879,300)
c. Net total cost	6,463,700	—	—	—	—	6,463,700
3. Demonstration programs	—	$432,837	269,093	—	—	701,930
4. Child welfare services (Title IV-B)	—	—	4,119,446	$1,373,149	—	5,492,595
5. Work incentive program (Title IV-C)						
a. WIN child care	430,946	—	3,878,512	—	—	4,309,458
b. WIN administrative unit	—	—	11,648,624	1,294,291	—	12,942,915
6. Maternity care	2,079,670	—	—	—	—	2,079,670
7. Deaf Access	1,597,346	—	—	—	—	1,597,346
Subtotals	$27,518,656	$432,837	$19,915,675	$2,667,440	—	$50,534,608
Totals	$150,245,801	$432,837	$385,823,149	$53,948,669	$3,475,444	$593,925,900 [a]

[a] This amount includes a reduction of $62,685,256, total funds ($52,013,942 federal Title XX funds and $10,671,314 reimbursements) from the 1980 Budget Act appropriation for Special Social Services programs due to a transfer of funds budgeted for child development programs to the Department of Education. This $62,685,256 is included in Item 610 of the 1981 Budget Bill for child development programs.

For fiscal year 1981-82, total state and county Title XX expenditures are proposed to exceed the required match by $73,034,871. *Because of this General Fund overmatch, any savingss, deficits, reductions, or augmentations in any of the Title XX social services programs will have a corresponding dollar-for-dollar impact on the states.* Table 3 displays the relationship between state, county, and federal Title XX expenditures from 1977-78 through 1981-82.

Table 3
Title XX Program Funding Sources
1977–78 to 1981–82

	Federal	*State General Fund*	*County*	*Totals*	*Percent General Fund*
1977–78	$276,585,768	$71,275,945	$46,335,905	$394,197,618	18.1%
1978–79	274,237,842	115,959,405	41,160,800	431,358,047	26.9
1979–80	283,887,900	135,267,127	45,493,155	464,648,182	29.1
1980–81 (estimated)	303,811,718	159,060,322	50,445,562	513,317,602	31.0
1981–82 (proposed)	304,413,509	123,171,589	50,445,562	478,030,660	25.8

Title XX Funding Transfer

The budget proposes to (1) redirect $52 million in federal Title XX funds from the child development program administered by the Department of Education to the In-Home Supportive Services program and (2) replace these funds with an equal amount of General Fund support which has been budgeted in past years for the In-Home Supportive Services program. This transfer will result in no net change in the level of funding for either program or in the total General Fund amount required for the support of the two programs. The effect of the funding shift will be to (1) increase federal funds budgeted for In-Home Supportive Services, (2) "buy out" federal funds for child development programs with General Fund support, and (3) transfer appropriations for child development programs from the budget item for special social services programs (Item 518) to Item 610. Similar funding transfers were contained in the 1978 and 1979 Budget Acts, when General Fund support replaced federal Title XX funds in the Community Care Licensing program and programs administered by the Departments of Rehabilitation, Developmental Services, and Mental Health.

Potential Administrative Savings. As the single state agency designated to receive federal Title XX funds, the Department of Social Services (DSS) historically has entered into an interagency agreement with the Department of Education (DOE) to transfer federal funds to DOE for child development programs. Federal regulations concerning state Title XX programs require the designated single state agency to (1) compile an annual plan for all services supported by federal Title XX funds and (2) ensure that the state's Title XX program meets all federal requirements. In past years, the interagency agreement between DSS and DOE provided DSS with approximately $270,000 for the administrative costs of monitoring DOE child development programs and complying with other federal requirements. Because the proposed funding transfer will eliminate federal Title XX funds in the child development program, there is no longer a need for the $270,000 allowance for DSS administrative costs. We discuss the proposed use of these funds in the budget year in our analysis of child development programs (Item 610).

Change in Federal Law. For federal fiscal years 1977, 1978 and 1979, $200 million in federal child day care appropriations were made available nationwide without state or local match requirements. The allocation each state received from this amount was in addition to the state's normal share of federal funds for Title XX social services. The increased amount, however, could be spent only for child development. The Adoption Assistance and Child Welfare Act of 1980 (PL 96-272), enacted in May 1980, deletes the requirement that a portion of the state's Title XX allocation must be spent on child development programs. Instead this law exempts up to 8 percent of a state's total annual Title XX allocation (an amount equal to

DEPARTMENT OF SOCIAL SERVICES—Continued

approximately $24.7 million in California in federal fiscal year 1982) from existing state match requirements if the funds are used for child development.

Because the budget already contains more General Fund support for special social services programs than is required by federal law, California would not have to provide any additional match even if it fails to use 8 percent of its Title XX allocation for child development. As a result, California will not gain or lose federal funds as a result of the proposed General Fund buyout of child day care.

Proposed Allocation of Federal Title XX Funds by State Fiscal Year.

Because the federal and state fiscal years are not the same, the state must decide how federal funds provided during a given federal fiscal year are to be split between two state fiscal years. For example, the state must decide how to split funds received during federal fiscal year 1982 (October 1, 1981–September 30, 1982), between the state's fiscal year 1981–82 (which encompasses 75 percent of fiscal year 1982) and 1982–83 (which encompasses 25 percent of fiscal year 1982). Table 4 shows the proposed allocation of federal Title XX funds by state fiscal year.

The budget proposes to allocate $304.4 million in federal Title XX funds for use during state fiscal year 1981–82. This includes $261.7 million, or 84.6 percent, of the amount expected to be available to the state during federal fiscal year 1982. The remaining funds from federal fiscal year 1982 are reserved for use during state fiscal year 1982–83.

By allocating more than 75 percent of the federal funds available in a federal fiscal year for use during the initial state fiscal year for which they are available, the state (1) increases the base budget for social services programs and (2) decreases federal funds available for the subsequent year. Therefore, this practice creates a need for future year increases in state or federal support.

Table 4
Federal Title XX Funds
Allocated by State Fiscal Year
1980–81 and 1981–82
(in millions)

	Federal Fiscal Year			
	1980	*1981*	*1982*	*Total*
State fiscal year 1980–81	$62.0	$241.8	—	$303.8
State fiscal year 1981–82	—	42.7	$261.7	304.4
Unbudgeted	—	11.9[a]	47.6[b]	—
Totals	$273.3	$296.4	$309.3	

[a] The 1980 Budget Act reserved this amount to fund legislation enacted prior to June 30, 1981.
[b] These funds are reserved for use during the first quarter of state fiscal year 1982–83.

Major Federal Legislation—PL 96-272

The Adoption Assistance and Child Welfare Act of 1980 (Public Law 96-272) was enacted by Congress on June 17, 1980. This law made several major amendments to the federal Social Security Act related to the following programs: (1) Title XX social services, (2) Title IV-B child welfare services, (3) Aid for the Adoption of Children, and (4) Title IV-A foster care payments. The intent of the federal law is to (1) reduce the numbers of children in out-of-home placements nationwide by providing states with financial incentives to prevent the initial separation of families and (2) encourage permanent planning for children who are separated from their families. The actual fiscal impact on California of many of the provisions

Table 5
Adoption Assistance and Child Welfare Act of 1980
Summary of Major Provisions

Program	*Effective October 1, 1980*	*Effective October 1, 1981*	*Effective October 1, 1982*	*Effective October 1, 1983*	*Effective October 1, 1984*
Foster Care Payments	1. Cap on federal participation if $163.55 m. Title IV-B appropriated.	1. Cap if $220m. Title IV-B appropriated.	1. Cap if $266 m. Title IV-B appropriated.	1. Same as October 1982.	1. Same as October 1982.
	2. Optional shift to new Title IV-E program—potential additional funding if specific requirements met.	2. Same as October 1980.	2. Mandatory shift to new Title IV-E. Case plan and six-month review required. Other requirements to obtain voluntary placements funding.	2. Preplacement preventive and reunification services required. Termination of funding for voluntary placements.	
	3. Revised definition of allowable foster care costs under Title IV-E.	3. Same as October 1980.	3. Same as October 1980.	3. Same as October 1980.	
Child Welfare Services	1. Title IV-B funds provided on advance basis.	1. Same as October 1980.	1. Same as October 1980.	1. Same as October 1980.	1. Federal funding level may revert to FFY 1979 level for any state that fails to meet requirements.
	2. Optional compliance with new protections—potential increase in federal funds.	2. Same as October 1980.	2. Same as October 1980		
Adoption Assistance	1. Optional program—federal funding available if certain IV-B requirements met.	1. Same as October 1980.	1. Required program.	1. Requires payments for cases where parents reside outside state.	
Social Services	1. Indexed ceiling replaces cap.	1. Same as October 1980.	1. Same as October 1980.	1. Same as October 1980.	

DEPARTMENT OF SOCIAL SERVICES—Continued

of this federal law will remain uncertain until federal regulations clarifying congressional intent are finalized. Table 5 summarizes the major provisions of PL 96-272.

Increase to Federal Title XX Ceiling. Public Law 96-272 increases the nationwide cap on federal funds available under Title XX of the Social Security Act. In federal fiscal year 1981, the total federal Title XX authorization is $2.9 billion. This amount will increase to $3.0 billion for federal fiscal year 1982. California's share of these federal authorizations, as published in the Federal Register, is $296,483,159 in federal fiscal year 1981 and $309,325,846 in federal fiscal year 1982.

Table 6 shows the annual national Title XX authorization levels as specified in PL 96-272. The amounts for federal fiscal years 1981–1985 represent the *maximum* funding levels authorized for the Title XX program under exisiting law. There is no guarantee, however, that these maximum amounts will be *appropriated* by the Congress. *Thus, the amounts of Title XX funding available to California may be less than the amounts implied by Table 6.*

Table 6
National Title XX Authorization Levels Specified in PL 96-272
Federal Fiscal Years 1980–1985
(in billions)

	Funding Level
1980	$2.7
1981	2.9
1982	3.0
1983	3.1
1984	3.2
1985	3.3

Revised Definition of Allowable Foster Care Payments. Historically, California has received federal reimbursement through Aid to Families with Dependent Children, Boarding Homes and Institutions (AFDC-BHI) for a portion of the cost of educational programs, non-Medi-Cal medical services, and some transportation services provided to children in foster care. PL 96-272 redefines the foster care maintenance program and creates a new Title IV-E program which excludes these activities from the definition of foster care payments. If provision for these activities is not included in final federal regulations, the Legislature will need to consider whether to continue these activities using state funds. The cost of these activities in California is estimated at $4.7 million in 1981–82.

Cap on Federal Financial Participation in Foster Care Payments. Under previous federal law, federal financial participation in the state's foster care payment program (Title IV-A AFDC-BHI) was not limited to a specific amount. Under the provisions of PL 96-272, beginning in federal fiscal year 1981, an annual ceiling will be set for federal financial participation in the state's foster care payment program (Title IV-A/IV-E) if the federal appropriation level for Title IV-B child welfare services is at least as high as specified in PL 96-272. Table 7 shows the federal appropriation levels which are required by the act in order to impose a ceiling on federal participation in foster care payment costs.

Because the current continuing resolution on the federal budget (House Joint Resolution 644) contains up to $163.5 million for Title IV-B, federal financial participation in foster care payments will be capped for each state, in federal fiscal year 1981. Proposed federal regulations indicate each state will be allowed to select one of three formulas to determine the state's ceiling.

Table 7
Federal Title IV-B Appropriation Levels Required to Cap Federal Participation in Foster Care Payment Costs
Federal Fiscal Years 1981–1984
(in millions)

Federal Fiscal Year	*Appropriation Level*
1981	$163.5
1982	220.0
1983	266.0
1984	266.0

In a program instruction to state administrators, dated January 2, 1981, the federal Administration for Children, Youth and Families announced that the most favorable of these three methods for California would allow the state $42 million for foster care maintenance payments during federal fiscal year 1981. *This is less than the amount assumed in the budget.*

The budget asumes that the federal share of foster care grants and administrative costs during 1980–81 will be $48.0 million. These costs are estimated at $54.3 million in 1981–82.

Three quarters of federal fiscal year 1981 fall in state fiscal year 1980–81 and one quarter falls in state fiscal year 1981–82. Thus, if the state is unsuccessful in its attempts to increase the announced cap, there may be a shortfall in federal funds in one or both of these two state fiscal years.

To the extent the final cap on federal foster care funding is less than the federal share of costs under prior law, and total costs are not reduced, other funds would have to be utilized in this program in order to avoid a reduction in services provided. If the federal 1982 Title IV-B appropriation also imposes a cap on foster care payments, the state may experience further reductions in the amount of federal funds available in state fiscal year 1981–82.

New Foster Care Payment Program Requirements. PL 96-272 mandates that the state's foster care payment program (Title IV-E) include a case plan for each child in foster care and a six-month administrative or court review of each foster care placement. These two requirements must be met by October 1982 in order for the state to continue to receive federal financial participation in the foster care payment program.

Federal financial participation beyond October 1983 is contingent upon the state having implemented permanency planning services and preplacement services designed to maintain children in their own homes whenever possible. The specific federal definition of these preplacement and permanency planning requirements will remain uncertain until federal regulations are finalized.

New Child Welfare Services Program Requirements. In order for the state to exercise certain options regarding the child welfare services program, federal law requires (a) state implementation of all new foster care payment program requirements, (b) an inventory of all children in foster care, (c) a statewide foster care information system, and (d) an 18-month court-dispositional hearing for all children in foster care. If these requirements are met, the state could (a) transfer surplus foster care payment funds, within the federal ceiling, to child welfare services, (b) obtain federal reimbursement for the cost of foster care payments for children placed in out-of-home care on a voluntary basis, and (c) receive a share of federal child welfare services appropriations exceeding $141 million. In addition, states which comply with child welfare services requirements prior to October 1984 will be eligible to receive an additional share of the annual Title IV-B appropriation which remains unallocated because of the failure of other states to

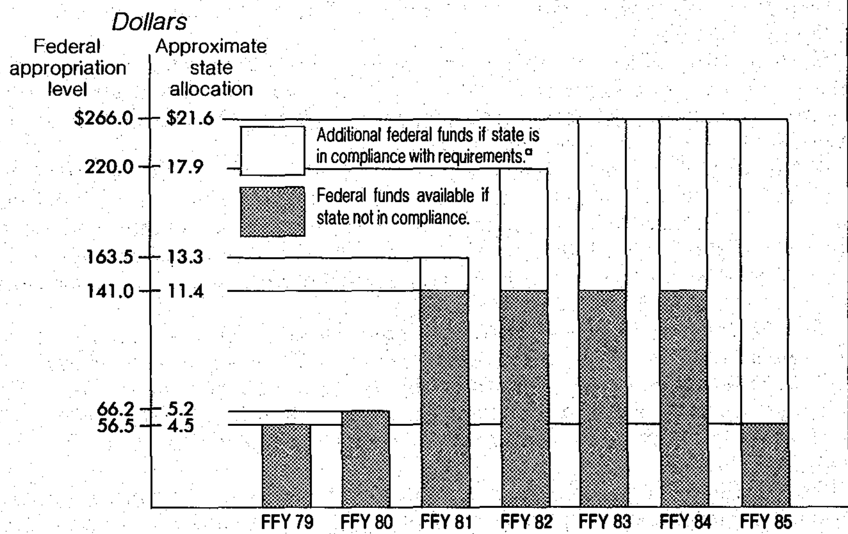
DEPARTMENT OF SOCIAL SERVICES—Continued

comply with these new requirements. If California is not in compliance with the new child welfare service requirements by October 1984, its allocation of federal child welfare services funds will be reduced to its 1979 allocation ($4.5 million).

Chart 1 shows California's share of federal Title IV-B appropriations with and without compliance with the child welfare services requirements. The total cost of compliance with these federal requirements is not known at this time.

The federal Title IV-B appropriation for federal fiscal year 1981, as contained in House Joint Resolution 644, enacted December 15, 1980, is $163.5 million. As shown by Chart 1, California will receive $11.4 million of this amount if the state has not fully implemented the provisions of federal regulations or $13.3 million if the state is in compliance with the federal regulations, a difference of $1.9 million.

Chart 1
California's Share of Federal Title IV-B Funds Trigger Appropriation Levels Federal Fiscal Years 1979 to 1985 (in millions)



[a] Based on past year allocation percentages.

Federal Adoption Assistance Program. After the state has submitted a plan to the federal government for the implementation of the new foster care payment program, PL 96-272 allows the state to obtain federal reimbursement for approximately 50 percent of the cost of cash payments to parents who adopt certain hard-to-place children. Eligibility for participation in the federal adoption assistance program would continue from the time of a child's adoption until he or she has reached the age of 18. California's current Aid for the Adoption of Children program, supported entirely by the state General Fund, allows cash payments, in lieu of foster care maintenance payments, to continue only five years after the child has been adopted. Consequently, as a result of the absence of a time limitation in the new federal program, the total caseload of subsidized adoptive children in California is likely to increase over time. Moreover, because of specific income-maintenance related eligibility requirements in the federal program, not all children currently eligible for the state program will be eligible for the federal program.

Increased Federal Title IV-B Funds Not Included in Budget

We recommend that $7,310,123 in unbudgeted federal Title IV-B funds replace overbudgeted General Fund support for special social services programs, for a General Fund savings of $7,310,123.

Under Title IV-B of the federal Social Security Act, grants are made to the states to provide and improve child welfare services, such as adoptions, day care, foster care and protective services for abused and neglected children. In California, Title IV-B child welfare services are administered by the Department of Social Services and delivered by county welfare departments. Federal Title IV-B funds require a 25 percent state or local match, which, in accordance with the annual state Budget Act, is provided by the counties.

Our analysis indicates that $7,310,123 in federal Title IV-B funds available to the state in 1980–81 and 1981–82 are not included in the Governor's Budget. Because these funds are not included in the budget, a greater amount of General Fund support is proposed for these programs than is required to provide proposed services.

Federal Appropriation. The Social Security Act authorizes $266 million annually for child welfare services. In the annual federal budget, however, Congress has traditionally appropriated $56 million, rather than the entire authorized amount. California's 1980–81 and 1981–82 budgets assume a federal appropriation level of $56 million.

Federal Fiscal Year 1980 Allocation. In federal fiscal year 1980, however, the final federal appropriation level was increased to $66.2 million. The U. S. Department of Health and Human Services notified California on August 21, 1980 that the state could receive up to $5,238,037 in 1980 rather than the $4,437,530 initially allocated. The federal agency further informed the state that the additional $800,507 was available for expenditure until September 30, 1981. On August 25, 1980 the Department of Social Services modified the state's annual federal budget for child welfare services to include this additional allocation.

Of the additional $800,507 allocated to the state, the budget proposes $500,000 to develop and implement a foster care management information system in 1981–82. We discuss this proposal in our analysis of the department's support budget. The administration has not submitted a proposal to the Legislature for expenditure of the remaining $300,507.

Federal Fiscal Year 1981 Allocation. As discussed earlier, House Joint Resolution 644, the concurrent resolution on the federal 1981 budget, contains $163.5 million for Title IV-B child welfare services. Based on the allocation methodology established in PL 96-272, the Adoption Assistance and Child Welfare Act of 1980, the state will receive up to $11,447,146 during federal fiscal year 1981 without having to satisfy any additional federal requirements. If the state implements certain federal program requirements prior to the close of federal fiscal year 1981, the state's allocation could be as high as $13.3 million.

On October 20, 1980, the Department of Social Services submitted to the federal government the state's budget request of $11,447,146 for federal fiscal year 1981. The Governor's Budget, however, includes only $4,437,530 in federal Title IV-B funds, $7,009,616 less than the amount anticipated from the federal government.

General Fund Savings Possible. Based on budget planning documents submitted to the federal government, we conclude that the administration intends to expend $7,310,123 in unbudgeted federal IV-B funds during 1981–82. Our analysis indicates these funds could be used to (1) replace proposed General Fund support for child welfare services or adoptions or (2) replace federal Title XX funds proposed for children's protective services. If federal Title XX funds are freed-up through the use of Title IV-B funds, the amount of General Fund commitment required for the In-Home Supportive Services program could be reduced. Because

DEPARTMENT OF SOCIAL SERVICES—Continued

the proposed expenditure of these federal funds is not included in the Governor's Budget, the Legislature (1) does not have an opportunity to evaluate the total exenditure plan for child welfare services in the budget year, (2) is not able to specify how these additional federal funds should be used, and (3) is compelled to draw on the General Fund for support of the special social services programs while federal funds are held in reserve.

If these additional federal funds are used to replace General Fund support proposed in this item, the $7,310,123 from the General Fund would be available for use by the Legislature in meeting its financial priorities in this program or for other parts of the state's expenditure plan. Therefore, we recommend that $7,310,123 in unbudgeted federal Title IV-B funds replace General Fund support budgeted for special social services programs, for a General Fund savings of $7,310,123.

Foster Care Cost Shift

We recommend the Department of Finance advise the Legislature prior to budget hearings on the level of General Fund savings anticipated as a result of a shift in the cost of foster care services from Title XX to Title IV-A funding. We further recommend adoption of Budget Bill language requiring a reduction of General Fund support budgeted in this item by the amount of increased federal funds received as a result of this cost shift.

The federal Social Security Act contains a variety of public assistance programs and funding mechanisms. Title IV-A of that act establishes the Aid to Families with Dependent Children (AFDC) program discussed in our analysis of Item 518-101-001 (a). One component of the AFDC program is the provision of cash assistance payments on behalf of children in foster care. For federally eligible children, the federal government contributes 50 percent of the cost of these payments and program administration. The remaining 50 percent of the cost of this program is shared by the state and counties. Until the placement of a cap on foster care costs under the provisions of P.L. 96-272, discussed earlier, federal Title IV-A funds for foster care were open-ended.

Another part of the Social Security Act, Title XX, provides federal support to meet five broad goals, including the prevention of abuse, neglect, and exploitation of children who are unable to protect themselves. One of the programs offered by California to meet this objective is social services for children who are in foster care or are being considered for foster care. Federal Title XX funds are available for this program, up to an established allocation limit, on a matching basis of 75 percent federal, 25 percent nonfederal.

Shift in Cost of Foster Care Intake. In a July 31, 1980 letter to the U. S. Department of Health and Human Services, the Department of Social Services requested that certain foster care intake activities supported with federal Title XX funds be reimbursed instead through the AFDC foster care payment program. Our analysis indicates that the department instructed the counties to claim the cost of these activities as part of their Title IV-A programs beginning July 1, 1980 and enacted regulations on an emergency basis, effective January 24, 1981, implementing this procedure. The state Title IV-A claim submitted to the federal government for the quarter ending September 30, 1980, included a claim for $699,025 in federal funds for these activities.

Estimated Annual Savings. In a March 7, 1980 estimate, the Department of Social Services estimated that the total annual cost of these foster care intake activities was $17.7 million in 1979–80. In accordance with Title XX requirements, these costs were shared 75 percent federal ($13.3 million) and 25 percent county ($4.4 million). The department's March 1980 estimate indicates that the $13.3 million in federal Title XX funds currently supporting foster care activities could be used to reduce the General Fund commitment for Title XX programs. This savings would be offset, however, by the required General Fund share ($4.4 million) of the nonfederal match for the administration of Title IV-A. Thus, in the March 1980 estimate, the Department of Social Services anticipated a net General Fund savings of $8.9 million as a result of this funding shift from Title XX to Title IV-A.

Foster Care Funding Uncertain. A crucial aspect of this funding shift is the assumption that federal Title IV-A funds are unlimited. If this funding source is capped, additional federal funds may not be available. As our analysis of PL 96-272 indicates, the federal government has established a ceiling on total Title IV-A foster care costs effective during federal fiscal year 1981. It is our understanding that the Department of Social Services intends to appeal the federal fiscal year 1981 ceiling on the basis that not all applicable administrative costs were included in the federal calculation of base year expenditures. Congress must appropriate a specific funding level for child welfare services for federal fiscal year 1982 in order for the foster care cap to remain effective. Therefore, the level of federal financial participation in the state's foster care payment program during federal fiscal years 1981 and 1982 is uncertain.

Increased federal funds not budgeted. Our analysis indicates that the department has completed the necessary steps to transfer the funding of foster care intake activities from Title XX to Title IV-A. At the time this analysis was written, we were unable to determine what, if any, General Fund savings would accrue to the state during 1981–82 as a result of the potential increase in federal funds. To the extent that additional federal funds become available as a result of this shift, the General Fund proposed for these programs is overbudgeted. As a result, the Legislature is unable to assess the actual need for General Fund support for these programs and is restricted in its ability to allocate resources to meet its priorities. Therefore, we recommend the Department of Finance identify the level of anticipated 1981–82 General Fund savings resulting from this funding shift.

Because any additional federal funds derived as a result of this funding shift will reduce the need for General Fund support for social services programs, we further recommend the adoption of the following Budget Bill language:

> "Provided further that funds appropriated by this item shall be reduced by the Director of Finance by the amount of federal Title IV-A funds made available for the purposes of this item in excess of the federal funds scheduled in Item 518-101-866."

STATE ADMINISTRATION ISSUES

Legislative Control of Program Appropriations

We recommend the 1981 Budget Bill be amended to schedule social services programs in the same detail as in prior years in order to facilitate legislative review of each program element. We further recommend adoption of Budget Bill language requiring that the Legislature be notified in advance of any transfers of funds among program elements.

Item 518-101-001(e) of the 1981 Budget Bill proposes $143,782,101 from the General Fund for social services programs. The programs proposed to be funded through this item include in-home supportive services, adoptions, a 24-hour emergency response system, and other programs, as detailed on page HW 174 of the budget document.

In past years, the annual Budget Act separated these social services programs into several categories within the appropriation item. This practice restricted the transfer of funds between these programs under the provisions of Control Sections 27.5 and 28. For example, during 1978–79, the administration identified a deficit in funds appropriated for the In-Home Supportive Services program, and proposed to fund it using the anticipated savings in the Adoptions and Community

DEPARTMENT OF SOCIAL SERVICES—Continued

Care Licensing programs. Prior to making the transfer, however, the Department of Finance notified the Legislature of its intention. Our analysis indicates that such notification of a pending change in the approved budget program would not be required in 1981–82 if the Budget Bill (1) schedules all social services programs in one category and (2) does not contain language requiring such notification.

The Legislature has traditionally authorized a total appropriation for social services programs based on its review of the individual amounts required to support specific programs. Scheduling of the proposed funds in the 1981 Budget Bill, as introduced, would provide for legislative control over only the total appropriation and would thus limit the Legislature's ability to review and influence expenditures for individual programs. In order to ensure that appropriated funds are expended in the manner approved by the Legislature, we recommend that the Budget Bill schedule for Item 518-101-001 (e) be modified to identify the individual appropriations for social services programs shown on pages HW 174 and 175 of the 1981 Governor's Budget. In order to ensure continued legislative review of the expenditures for these programs, we further recommend adoption of the following Budget Bill language:

"Provided further that, notwithstanding the provisions of Sections 27.5 and 28 of the Budget Act, the Director of Finance may transfer funds appropriated for program 20, social services, among these elements not sooner than 30 days after notification in writing of the necessity therefor to the chairman of the committee in each house which considers appropriations and the chairperson of the Joint Legislative Budget Committee, or not sooner than such lesser time as the chairperson of the committee, or his designee, may in each instance determine."

The Social Services Planning Act

We recommend (1) the Department of Finance include in its 1980–81 progress report on the implementation of Chapter 1235, Statutes of 1978, a description of the process for incorporating county defined needs and priorities into the state social services plan required by that act, and (2) the adoption of supplemental report language requiring the Department of Social Services to submit a design for the prediction of program utilization which will be submitted with the proposed 1982–83 budget.

The Social Services Planning Act, Chapter 1235 , Statutes of 1978 (AB 1642), requires that the annual statewide social services planning process, required by federal law, be linked to the state's budget process. Currently, the state social services planning process is based on the federal fiscal year and does not provide usable data for resource allocation through the state's budget process. To accomplish this link, the act requires the Governor to submit to the Legislature with his proposed annual budget, a prediction of program utilization (PPU) based on a comprehensive state and county planning process. The Department of Social Services is required by the act to implement this comprehensive planning process during a three-year period beginning July 1, 1979. The first full planning cycle, including development of the PPU, is not required to be completed until submission of the 1982–83 Governor's Budget.

Prediction of Program Utilization. The PPU is intended to furnish the Legislature with (1) a description of proposed programs and services and (2) a basis for allocating funds among these programs. Specifically, the act requires the department to (1) predict the number of persons or families in need of each program, (2) recommend priorities among the various programs, (3) recommend an allocation of funds based on (a) base year allocations, and (b) specified needs and priorities, (4) identify proposed funding sources and the need for additional resources, and (5) summarize social services coordination and integration accomplishments and public involvement in the planning process.

The Social Services Planning Act requires the Legislative Analyst to analyze the PPU in conjunction with his analysis of the annual Budget Bill. Because the first PPU will be submitted as part of the 1982–83 budget process, we have reviewed the department's progress in implementing Chapter 1235, Statutes of 1978. In addition, the Department of Finance advises that it will submit to the Legislature a 1980–81 progress report, as required by Chapter 1235, after June 30, 1981.

Departmental Progress in Implementing the Act. The department of Social Services appears to be close to its implementation schedule, as set forth in the plan submitted to the Legislature by the department during hearings on the 1980 Budget Bill. During 1980–81, DSS continued to convene the Interim Planning Task Force as required by the act, and developed planning guidelines for the 1982–83 planning cycle. These guidelines are scheduled to be released to the counties in mid-February, approximately two weeks behind schedule. The February guidelines are intended to notify counties of the steps necessary for implementation of the act. An additional notification is anticipated in June, which will include detailed instructions, projected caseloads, and projected 1981 base allocations necessary for the counties to complete the required plan by October 1981.

Design of PPU Unspecified. We have identified two problems regarding the implementation of this act. First, the department has not developed a framework for incorporating county needs and priorities into the state plan. The 1982–83 draft planning guidelines allow the counties to identify high priority local service requirements. It is unclear, however, how these local priorities will be weighted in relation to each other and to the state's established priorities.

Second, the PPU is scheduled to be submitted to the Joint Legislative Budget Committee in late November 1981 along with the department's estimate of program expenditures for 1982–83. This time frame will allow legislative review of the prediction of program utilization only after it is completed rather than to its design. The required components of the PPU, however, may be addressed in a number of ways, and the Legislature may wish to review these alternatives before the design is completed.

In order to allow the Legislature an opportunity to assess the basis of the proposed 1982–83 budget for social services programs, we recommend the Department of Finance include in its 1980–81 progress report a description of the process for translating county needs and priorities into the state plan. We further recommend adoption of the following supplemental report language:

> "The Department of Social Services shall submit a detailed design for the prediction of program utilization which will be submitted with the proposed 1982–83 budget, to the fiscal committees and the Joint Legislative Budget Committee by September 1, 1981."

Cost-of-Living Increases for County Welfare Department Employees

We recommend adoption of Budget Bill language limiting state fiscal liability for county cost-of-living adjustments to the cost of the percentage increase authorized by the Legislature. We further recommend adoption of supplemental report language directing the department to prevent overbudgeting of such increases in 1982–83.

Item 518-101-001 (e) and (f) appropriate funds for county administration of the adoptions ($16,741,144) and community care licensing ($6,463,700) programs, as well as for a portion of the in-home supportive services program ($5,226,478). In addition, the budget contains $144.3 million in federal funds proposed for "other county social services." These amounts do not include funds to provide cost-of-living increases to county employees during 1981–82.

In addition, the budget contains language stating that "the Department of Social Services shall not allocate state funds to counties for county administration for the purpose of fiscal year 1981–82 cost-of-living adjustments." It is our understanding,

DEPARTMENT OF SOCIAL SERVICES—Continued

however, that unless additional action is taken, the state may be forced to share in the funding of cost-of-living increases for county employees that exceed whatever increases are specifically provided by the Legislature.

1980 Budget Act Limits Salary Increases. The 1980 Budget Act provides for discretionary cost-of-living adjustments of 9 percent for these social services programs. It also contains language specifically prohibiting funds appropriated for these programs to be used for county employee salary increases in excess of 9 percent. Counties, however, were not prohibited by this language from providing salary increases in excess of 9 percent. The language merely specified that state and federal funds appropriated by the 1980 Budget Act could not be used for this purpose.

As of November 1980, the average 1980–81 salary increase granted or expected to be granted by counties to their social services employees was 8.1 percent. Of the 58 counties, however, 24 have granted salary increases exceeding 9 percent. It is not known how many counties will grant further increases before the end of 1980–81. The Department of Social Services advises that counties will be notified in early February 1981 of the procedures which will be followed to disallow reimbursements for salary increases in excess of 9 percent.

In addition to salary increases, counties may incur cost increases for staff benefits, minimum wage requirements, administrative overhead, and operating expenses and equipment. Increases in these expenditure categories were not covered by the 1980 Budget Act language limiting county salary increases. *Total* county cost-of-living increases during 1980–81, however, will exceed county *salary* increases as a result of these increases in staff benefits and other expenses.

Effect on General Fund. The 1980 Budget Act language regarding county employee salaries is not continued in the 1981 Budget Bill, as introduced. Consequently, county governments could provide salary and benefit increases and claim price increases for nonpersonal services which exceed any cost-of-living adjustment provided these programs through the state's budget process. For example, if the Legislature appropriated funds for a 4 percent price increase for the three identified programs, and the counties granted price increases totaling 9 percent, the state could be liable for additional, unbudgeted costs of approximately $1.3 million.

The cost of individual county cost-of-living increases in excess of the percentage provided for by General Fund appropriation for these programs may potentially be shifted to the state as a result of (1) reallocations of funds among the counties at the close of the fiscal year, (2) transfers of funds among state social services programs, and (3) requests for deficit appropriations from the General Fund. All three of these funding mechanisms have been employed in past years to fund county deficits. Therefore, without specific language precluding the use of funds appropriated by the Budget Bill for county cost-of-living increases in excess of the increase provided for by the Legislature, additional General Fund dollars may be required to support these increased expenditures. Moreover, in subsequent fiscal years, the higher cost-of-living adjustment would be built into the base expenditures, thus requiring increased state funding. Reimbursing counties for higher cost-of-living increases than specifically authorized in the Budget Act (1) reduces the Legislature's ability to control General Fund expenditures, (2) allows reductions in service levels to support increased salary costs and (3) encourages inequitable compensation levels among workers performing similar duties in the 58 counties.

For these reasons, we recommend that control language be added to the Budget Bill which limits the state's fiscal liability for county cost-of-living increases in both personal and nonpersonal services to the cost of the percentage increase approved by the Legislature.

"Provided further that notwithstanding any provision of the Welfare and Institutions Code to the contrary, none of the funds appropriated by this item for programs 20 and 30 shall be used to provide cost-of-living increases to personal and nonpersonal services in excess of the amount specifically authorized for such purposes by the Legislature."

Even if the Legislature chooses not to fund cost-of-living increases in excess of the amount specifically appropriated in the budget year, cost-of-living increases granted and paid for by the counties in 1981–82 could be built into the following year's budget. To prevent overbudgeting, we further recommend adoption of the following supplemental report language:

"The department's 1982–83 request for funds for special social services programs shall not include the cost of any 1981–82 salary, benefit, or nonpersonal services 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 cost-of-living increases in excess of the amount authorized by the Legislature 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."

IN-HOME SUPPORTIVE SERVICES

Program Description

During 1981–82, the In-Home Supportive Services (IHSS) program will provide personal care, domestic and paramedical services to approximately 99,000 aged, blind and disabled individuals. This program is funded by the state and federal governments, and administered by county welfare departments. Each county may choose to deliver services in one of three ways: (1) directly by county employees, (2) by agencies under contract with the counties, or (3) by providers hired directly by the recipient. Individual providers hired directly by recipients deliver 96.5 percent of all IHSS case months. Los Angeles County accounts for 43 percent of estimated 1980–81 IHSS expenditures.

Current Year Savings

The Department of Social Services estimates that 1980–81 General Fund expenditures for IHSS will be $273,428 less than the amount appropriated for the program by the 1980 Budget Act. This amount, less than 0.1 percent of the $243.8 million appropriation, is due to savings of $2,046,327 in funds budgeted for minimum wage and cost-of-living increases which were partially offset by an increase of $1,772,899 in basic program costs.

Budget Year Proposal

The budget proposes a General Fund appropriation of $117,727,145 for IHSS, which is a decrease of $25,217,419, or 17.6 percent, below estimated 1980–81 expenditures.

This proposed decrease in General Fund support does not reflect a reduction in services provided under the program. Instead, it is largely the result of a proposed shift of $52,013,942 in federal Title XX funds from the Department of Education's child care programs to IHSS, and a corresponding shift of General Fund dollars from IHSS to the Department of Education. In addition, the allocation of $601,791 in additional federal Title XX funds is being used to reduce the amount of General Fund support provided to the program. When allowance is made for these funding shifts, the amount requested from the General Fund for support of the program actually increases by $27,398,314. This increase is due to an anticipated 6.49 percent growth in caseload ($16,233,408), statutory cost-of-

DEPARTMENT OF SOCIAL SERVICES—Continued

living adjustments for grants which are currently at the maximum level ($1,368,820), minimum wage increases effective January 1981 ($7,633,525), the cost of employee benefits for individual providers ($2,163,346) and a net decrease in the cost of restaurant meals ($—785).

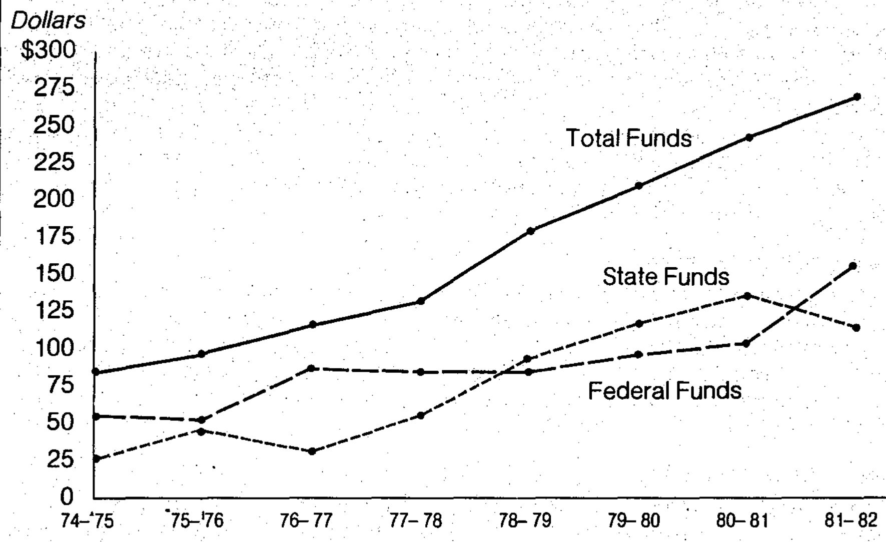
Total program expenditures are proposed at $270,884,325 for 1981–82. This is an increase of $27,398,314, or 11.3 percent, over estimated current year expenditures. The budget also includes $306,813 in federal funds to provide IHSS to refugees.

Program Funding Sources

The state is statutorily required to provide a 25 percent match for federal Title XX funds available for IHSS. Since fiscal year 1978–79, the state's General Fund share of the IHSS budget has been larger than the federal share. Of the funds proposed for the budget year, however, 43.5 percent are state and 56.5 percent are federal. Chart 2 shows the relationship between state and federal funds spent on IHSS during the period 1974–75 to 1981–82.

Chart 2

Expenditures for In-Home Supportive Services General Fund, Federal and Totals 1974–75 to 1981–82 (in millions)



Automatic Adjustment to Maximum Allowable Monthly Payment

The budget requests $1,368,820 to provide a 4.75 percent increase in (1) maximum allowable monthly payments and (2) restaurant meal allowance levels for in-home supportive services (IHSS). This percentage increase is proposed in lieu of the *statutory* cost-of-living adjustment based on the California Necessities Index.

Background. Existing law requires that maximum monthly allowable payment levels for IHSS recipients be adjusted annually to provide percentage cost-of-living increases identical to those statutorily authorized for SSI/SSP grant levels. Under current law, the cost-of-living adjustment is based on the annual percentage change in the California Necessities Index (CNI). This index measures the weighted average change in the prices of food, clothing, fuel, utilities, rent and transportation for low-income consumers. The index is based on California's largest metropolitan areas and is measured from December to December of the year preceding the effective date of the adjustment. The adjustment in 1981–82 payment levels called for by existing law is estimated at 11.2 percent. For the IHSS program each 1 percent adjustment to the statutory maximum payment levels and restaurant meal allowances would cost approximately $290,000.

Two categories of IHSS recipients are identified for purposes of determining the maximum monthly payment levels: (a) IHSS recipients who are authorized to receive at lest 20 hours per month of personal care, ambulation, paramedical, and other specified services, and (b) recipients who receive less than 20 hours of these specified services. Table 8 shows (1) the maximum allowable monthly payment levels for these two categories of recipients during 1979–80 and 1980–81 and (2) the 1981–82 maximum levels for these recipients based on the proposed budget and on the estimated increase in the CNI of 11.2 percent.

Table 8
Maximum Monthly IHSS Grants
1979–80 to 1981–82

			1981–82		
	1979–80	*1980–81*	*Statutory (CNI)*	*Budget Proposal*	*Difference*
Recipients receiving 20 or more hours of specified services per month	$664	$767	$853	$803	$50
Other recipients	460	532	592	557	35

Impact of Proposed Monthly Payment Levels. In-home supportive services are authorized for eligible recipients based on needs assessments conducted by county welfare department staff. Service is awarded on an hourly basis. A small number of severely disabled recipients receive a flat monthly award.

The dollar amount of an individual recipient's IHSS award is generally determined by multiplying the number of authorized service hours by the hourly wage paid to IHSS providers. Although counties have the authority to establish the wage level for IHSS providers, the hourly wage is generally equivalent to the federal and state minimum wage ($3.35 per hour effective January 1981). Thus, in 1980–81, IHSS recipients would receive the maximum monthly payment of $767 if they required 20 or more *hours of specified service* per month and were authorized 229 or more *total hours* of service per month. Other recipients could receive the maximum $532 monthly award if they were authorized 159 or more hours of paid service per month of which less than 20 hours were for specified services.

A large majority of cases are paid on an hourly basis. For these cases, an increase in the statutory maximum monthly grant may increase the number of hours of service they receive each month. State law stipulates that an increase in the maximum allowable payment level should not be construed as a guaranteed increase in the number of hours of service or total dollar award a recipient may receive each month. Therefore, only those recipients who are determined to have an unmet need for service which exceeds the current maximum payment level would receive increased service hour authorizations as a result of an increase in the statutory maximum. In practice, the majority of cases now at the statutory maximum would probably receive increased monthly service authorizations if the statutory maximum is increased.

If the maximum payment level for 1981–82 is increased by 4.75 percent, as proposed by the budget, IHSS recipients paid on an hourly basis and receiving 20 or more hours of specified services could receive up to 239 hours of paid service

DEPARTMENT OF SOCIAL SERVICES—Continued

per month (an increase of 10 hours per month), provided no change is made to the minimum wage of $3.35 per hour. These recipients could receive up to 255 hours of paid service per month if the maximum payment level called for by existing law (CNI increase estimated at 11.2 percent) was approved (26 hours per month). Recipients not authorized to receive 20 hours or more of specified services could receive up to 166 and 177 hours of paid services per month, if the service cost level is increased by 4.75 percent and 11.2 percent, respectively.

Recipients Paid on a Monthly Basis. Approximately 1 percent of all IHSS recipients (less than 1,000 persons) receive flat monthly payments rather than hourly payments. These recipients require a large amount of personal services. Therefore, most flat grant recipients receive 20 or more hours of the specified services which qualify them for the highest maximum monthly payment. The effect of an increase in the statutory dollar award on flat grant recipients would be an increase to their providers' monthly compensation.

Caseload Receiving Maximum Monthly Payments. The Department of Social Services estimates that 3.35 percent of all IHSS recipients receive the maximum allowable monthly payments. Of those recipients who qualify for the higher of the two service levels, however, 15.9 percent receive the maximum allowable monthly payment. Table 9 shows the number of recipients projected to receive the maximum monthly payment during 1981–82.

Table 9
In-Home Supportive Services
Estimated Caseload Receiving
Maximum Monthly Payment[a]
1981–82

	Average Monthly Cases		
	Total	*At Maximum Payment Level*	*Percent*
20 hours or more of specified services	12,541	2,003	15.9%
Other	86,493	1,312	1.5
Totals	99,034	3,315	3.35%

[a] Source: Department of Social Services.

Other Effects of Statutory Increase. Increases in maximum monthly service costs to IHSS recipients account for $1,258,943 of the total $1,368,820 proposed for the statutory cost-of-living adjustment. The remainder is allocated for (1) an increase in the maximum monthly allowance for restaurant meals from $43 to $44 ($10,855) and (2) an increase in the cost of employee benefits for providers due to an increase in the number of IHSS recipients whose quarterly payroll to providers would become subject to various withholding rules if the payment levels are increased ($99,022).

Continued Growth in Expenditures

We withhold recommendation on $27,398,314 from the General Fund proposed for increases in caseload, minimum wage, cost-of-living and provider benefits for the In-Home Supportive Services program, pending receipt from the Department of Social Services of (1) a report required by the 1979 Budget Act regarding the implementation of uniform IHSS program regulations and (2) a report on the April to October 1980 quality control review period and the department's plans for correcting errors identified in that report.

The budget proposes $270 million, all funds, for the In-Home Supportive Services program in 1981–82. This is an increase of $27.4 million, or 11.3 percent, above estimated current year expenditures. Because a larger share of available federal

Title XX funds are proposed for allocation to this program than has been allocated in past years, the net General Fund amount proposed for IHSS in 1981–82 is $25.2 million, or 17.6 percent, less than estimated General Fund expenditures in the current year.

Our analysis indicates that based on past trends and the reduced availability of additional federal funds in future years, General Fund support for IHSS can be expected to resume the growth rate indicated by Chart 2.

Since 1974–75, when this program was created, total expenditures for IHSS have grown by over 300 percent. The average annual increase in expenditures since 1974–75 has been 19.4 percent. While the increase in expenditures proposed for 1981–82 is only 11.3 percent, the budget does not provide for (1) discretionary cost-of-living increases to county welfare department staff or contract providers or (2) the full statutory cost-of-living adjustment for maximum allowable payment levels.

Table 10 displays the increases in total expenditures for IHSS since 1974–75 and the proportions of General Fund and federal funds for each year. The table shows that the rate of growth in expenditures decreased from 1979–80 to 1981–82. The department states this may be due to implementation of uniform regulations enacted in April 1979.

Table 10
Total Expenditures for the In-Home Supportive Services Program
1974–75 to 1981–82

	General Fund	*Percent of Total*	*Federal Funds*	*Percent of Total*	*Totals*	*Amount Increase*	*Percent Increase*
1974–75	$25,927,000	32.9%	$52,750,002	67.1%	$78,677,002	—	—
1975–76	44,953,000	46.6	51,415,152	53.4	96,368,152	$17,691,150	22.5%
1976–77	28,908,943	25.0	86,726,828	75.0	115,635,771	19,267,619	20.0
1977–78	53,647,157	39.3	82,743,379	61.7	136,390,536	20,754,765	18.0
1978–79	94,731,134	53.3	82,866,134	46.7	177,597,268	41,206,732	30.2
1979–80	119,396,738	55.5	95,579,634	44.5	214,976,372	37,379,104	21.0
1980–81 (est)	142,944,564	58.7	100,541,447	41.3	243,486,011	28,509,634	13.4
1981–82 (prop)	$117,727,145	43.5%	$153,157,180	56.5%	$270,884,325	$27,398,314	11.3

Cost Containment Report Submitted January 20, 1981. Pursuant to language contained in the 1980 Budget Act, the Department of Social Services submitted to the Legislature a report which suggests a variety of approaches to contain the continued growth in expenditures for this program. The report was submitted January 20, 1981, too late for a detailed analysis to be included here. Our preliminary review, however, indicates that the report should assist legislative decisions on the funding of this program. We will be prepared to comment on the report during budget hearings.

Factors Governing Expenditure Growth. In the January 20, 1981 report, the department identified four aspects of the IHSS program which affect program costs: (1) eligible population, (2) range of services provided, (3) the level of assessed need for those eligible, and (4) the cost of services.

• Eligible population. Under current law, all SSI/SSP recipients and others who would be eligible for SSI/SSP except for excess income are eligible for IHSS. Less than 100,000 of those eligible, however, receive services. Expansions or restrictions in the criteria for determining the eligible population would affect program cost.

• Range of Services. The IHSS program currently provides domestic services, personal care, teaching and demonstration, yard hazard abatement and paramedical services. The availability of these services through IHSS affects the total hours of service authorized.

DEPARTMENT OF SOCIAL SERVICES—Continued

• Assessed need. Needs assessments conducted by social workers determine (1) the amount of IHSS required by recipients and (2) the degree of impairment for purposes of determining the recipient's monthly payment level. Individuals who are assessed as having a need for 20 or more hours of personal care service per month are eligible for higher maximum monthly service payments than other IHSS recipients. Individual needs assessment decisions are a major factor in total program cost.

• Cost of service delivery. The costs of (1) provider salaries, (2) employee benefits for providers and (3) administrative overhead for county welfare departments and contract providers are another component of program growth.

Quality Control Program Not Described. The cost containment report submitted on January 20, 1981 does not contain (1) a schedule for future quality control reviews, or (2) the department's plans for correcting the errors identified by the current review. Both were required by the Legislature in the 1980 Budget Act. In a 1978 pilot study of quality control for IHSS, the department found that (1) 15.8 percent of payments sampled were made to recipients whose eligibility was not documented and (2) 10.6 percent of sampled cases received higher payments than authorized. The department advises that during the last year it has initiated a full-scale quality control process to (1) monitor county compliance with state IHSS regulations and (2) diagnose weaknesses in state regulatory policy for corrective action. In addition, the department indicates that a quality control report for the first six-month cycle is expected shortly.

Required Report Delayed. The Supplemental Report of the 1979 Budget Act required the Department of Social Services to submit to the Legislature by April 1, 1980, a report on caseload growth, hours of service, cost of service, and other information regarding the April 1979 implementation of IHSS program regulations. In order to include data from counties which did not implement these regulations until November 1979, the department has delayed the submittal of this report until February 1, 1981.

Our analysis indicates that, although the marginal growth rate appears to be leveling off, IHSS expenditures will continue to grow at a rate exceeding that of other social services programs. We have not had an opportunity to review information which will be contained in the forthcoming report on the April 1979 regulations. As a result, we are unable to (1) determine what effect, if any, these efforts have had on controlling costs or (2) recommend approval of increased program costs. Therefore, we withhold recommendation on $27,398,314 from the General Fund requested to fund estimated increases in caseload, minimum wage, cost-of-living and provider benefits pending receipt of (1) the report required by the 1979 Budget Act regarding caseload growth, hours of services, costs of service and other information regarding the implementation of IHSS program regulations, and (2) the IHSS quality control report for the period April to October 1980 and the department's plans for correcting any error rates identified by that report.

IHSS Payrolling System

We recommend (1) the Department of Social Services submit to the Legislature prior to budget hearings, a timetable for development and approval of a feasibility study report on the 1982–83 implementation of Chapter 463, Statutes of 1978, and (2) adoption of Budget Bill language requiring, in the absence of an approved feasibility study report, a competitive bidding process to select the most cost-effective vendor.

The budget proposes $20,339,765 to provide employee benefits to individual providers of in-home supportive services. This is an increase of $2,163,346, or 11.9 percent, over estimated expenditures for this purpose in 1980–81. Of the proposed

$20.3 million for provider benefits, $17.8 million would be expended for employee benefits, and $2,525,139 is proposed to pay a private vendor for the operation of an automated statewide payrolling system.

Background. Chapter 463, Statutes of 1978 (AB 3028), requires the Department of Social Services to ensure that payments for federal Old-Age Survivors and Disability Insurance benefits, unemployment insurance, disability insurance, and workers' compensation are made on behalf of IHSS recipients to individual providers. Counties and IHSS contract providers are responsible for ensuring that their employees receive these benefits.

Services provided by individual providers are estimated by the Department of Social Services to account for 96.5 percent of annual case months during 1980–81. All but four counties use this mode of service provision for a portion of their caseload.

Chapter 463 went into effect on January 1, 1978. To comply with the provisions of the act, the department elected to contract with a private vendor to establish and maintain a statewide computerized payrolling system. Because of a challenge to the initial contractor selection process, the department had to undertake a second proposal process. This delayed selection of a payrolling contractor until September 5, 1979. In January 1980 the first checks were mailed to individual providers by Electronic Data Systems Federal (EDSF), the successful bidder in the second proposal process.

Contract Costs Exceed Proposal. The EDSF firm was selected from among four qualified bidders to establish and maintain the automated IHSS payrolling system. Its selection was based largely on the firm's organization, experience and proposed methodology, as well as on the total proposed cost. The EDSF proposal scored second in the evaluation process, and offered the lowest bid of the four qualifying bidders ($4,338,136, for the period September 1979 to June 1982).

Since the execution of the contract, however, various system enhancements and additions not identified in the request for proposal have increased the anticipated cost of the 34-month contract to $6,669,139. Thus the estimated cost of the contract is $2.2 million, or 52.0 percent, *higher* than the initial proposal. Without further competition among bidders, we are unable to determine if this contract is the most cost-effective alternative available to the state for the provision of employee benefits on behalf of IHSS recipients.

Contract Expires June 30, 1982. The agreement between EDSF and DSS expires June 30, 1982. The State Administrative Manual suggests than an analysis of alternatives to an expiring data processing contract should be concluded no later than six months prior to the expiration date. (The department advises that a period of nine months is generally required to complete the request for proposal process.) Therefore it will be necessary for the department to decide whether to continue or terminate the current contract prior to legislative hearings on the 1982–83 Budget bill.

Alternatives to the Existing Contract. Among the alternatives available to the state are (1) operation of a payrolling system using state-owned resources, (2) continuation of the existing contract and (3) selection of a different vendor based on a competitive bid process. The current contract includes a provision allowing the state to purchase or lease the software of the payrolling system.

Our analysis indicates that, during the initial contract selection process, the department failed to include in the feasibility study report, submitted to the State Office of Information Technology, a detailed cost-benefit analysis of the alternatives, such as the use of state-owned resources, to implement Chapter 463, Statutes of 1978. The purchase of system components not identified in the initial request for proposal have resulted in unanticipated increases in total contract costs. To some extent these unanticipated increases would have been identified in a more detailed feasibility study report.

DEPARTMENT OF SOCIAL SERVICES—Continued

Time Schedule for Decision Not Established. Our analysis indicates that the department has not yet developed a framework or time schedule for determining the most effective alternative for assuring that IHSS recipients meet their legal obligations as employers. In addition, we have been unable to determine the relationship between the IHSS automated payrolling system and the Statewide Public Assistance Network (SPAN) currently being developed by the department in response to Chapter 282, Statutes of 1979. The department has been unable to identify the potential link between these two automated public assistance systems.

In sum, we conclude that (1) the initial analysis of alternatives for the implementation of Chapter 463, Statutes of 1978, did not adequately assess the potential use of state-owned resources, (2) the anticipated total contract costs are 50 percent higher than the bid submitted by the contractor in open competition, and (3) little attention has been focused by the department to date on what should be done when the current payrolling contract expires. To the extent that state resources could be used to provide the payrolling service at a lower cost or other potential vendors could compete more successfully given current system specifications, the current contract may be unnecessarily costly.

Therefore, we recommend (1) the Department of Social Services submit to the Legislature prior to hearings on the 1981 Budget Bill a timetable for development and approval of a feasibility study report on the implementation of Chapter 463, Statutes of 1978, beginning July 1, 1982, and (2) the following language be added to the 1981 Budget Bill:

> "Provided further that, the Department of Social Services shall submit to the Joint Legislative Budget Committee, a feasibility study report approved by the Department of Finance and prepared in accordance with Section 4920 et seq. of the State Administrative Manual, for the continued implementation of Chapter 463, Statutes of 1978, and that this report shall include an analysis of (1) the alternative of utilizing state-owned resources and (2) the relationship of this implementation with the development of the Statewide Public Assistance Network. Provided further that, in the event such a feasibility study report is not completed and approved by September 1, 1981, the department shall develop a request for proposal and enter into a competitive bidding process to select the most cost-effective vendor to implement the requirements of Chapter 463, Statutes of 1978."

OTHER COUNTY SOCIAL SERVICES

Program Description

The Other County Social Services (OCSS) program consists of nine mandated Title XX programs (IHSS is the tenth mandated program) and thirteen programs which are provided at each county's option. A fourteenth service, family protection, offered in Shasta and San Mateo Counties on a pilot basis, expires June 30, 1981.

Proposed Budget

The budget proposes a total amount of $211,806,709 for Other County Social Services in 1981–82. This total consists of $192,129,465 in federal and county funds for the overall OCSS program, $10,572,426 (including $5,000,000 from the General Fund) for a 24-hour emergency response system and $9,104,818 in federal funds for services to refugees. Because the OCSS program is supported primarily by capped federal Title XX funds, any cost-of-living increase granted by the Legislature would require an increased General Fund appropriation.

Twenty-Four-Hour Emergency Response System

We withhold recommendation on $7,929,319 proposed for continued support of a statewide 24-hour emergency response system pending review of (1) actual 1979–80 and 1980–81 costs for this system, and (2) a report submitted to the Legislature January 20, 1981.

The budget proposes $10,572,426 to continue a 24-hour emergency response system for child abuse and neglect. This amount includes $2,929,319 in federal Title XX funds, $5,000,000 from the General Fund, and $2,643,107 in county funds.

Required Report Received January 20, 1981. The Supplemental Report of the 1980 Budget Act required the Department of Social Services to submit a report to the Legislature by December 15, 1980, regarding the characteristics of services rendered by the 24-hour emergency response system. The department notified the Legislature by letter that this report would be delayed until January 31, 1981, to allow for the collection of necessary data. Because of the late receipt of that report, we are unable to include a thorough analysis of its findings in this Analysis.

General Fund Support Not Required. Our preliminary review of the report, however, indicates that only $1,905,900 or 38.1 percent of the $5,000,000 appropriated from the General Fund for this program was expended in 1979–80. The report states that in addition to possible start-up delays, one reason so few funds were expended in 1979–80, is that surplus federal Title IV-B funds were used prior to using state funds. In addition, the department reports that, as of January 1981, (1) seven counties were not claiming reimbursement from the 24-hour emergency response system appropriation and (2) Los Angeles County has implemented the system in only one of it six regions. This indicates that 1981–82 expenditures may be somewhat less than the amount requested.

Funds Used for Purposes Other Than That Intended by the Legislature. Further, our analysis indicates that, contrary to legislative intent, funds appropriated by the Legislature in the 1979 Budget Act for this system were reallocated to counties at the end of the fiscal year to defray county deficits in other social services programs.

For the reasons given above, we are unable to determine the appropriate level of support for the 24-hour emergency response system. Accordingly, we withhold recommendation on $5,000,000 General Fund and $2,929,319 federal Title XX funds proposed to continue support for the 24-hour emergency response system until we have had an opportunity to review (1) the actual 1979–80 and 1980–81 costs for this program and (2) the report submitted by the department January 20, 1981.

OTHER SOCIAL SERVICES ACTIVITIES

Community Care Licensing

Community care facilities provide nonmedical residential care, day care, or homefinding services for children and adults. The Community Care Facilities Act of 1973 (Health and Safety Code, Section 1500 et. seq.) established minimum standards of care and services in community care facilities, and provided for the licensing and evaluation of these facilities. Pursuant to this act, the Department of Social Services develops regulations, conducts facilities evaluations, and contracts with counties to license and evaluate community care facilities.

In 1980–81, 48 counties contracted with the state to license approximately 70 percent of all community care facilities in California. About 90 percent of the county-licensed facilities are family day care or foster homes for children. The Department of Social Services is responsible for monitoring the performance of county licensing agencies. It also directly licenses about 26 percent of the state's community care facilities. Expenditures for direct state facilities evaluation are included in Item 518-001-001, Departmental Support.

DEPARTMENT OF SOCIAL SERVICES—Continued

Budget Year Decrease. The budget proposes $6,463,700 from the General Fund to support facilities evaluation and licensing by counties under contract with the Department of Social Services. This is a decrease of $9,292,400, or 59 percent, from 1980–81 estimated expenditures.

This proposed decrease consists of (1) a net reduction of $1,413,100 in funds proposed for county licensing, based primarily on the application of proposed state workload standards to the anticipated number of county licensed facilities, and (2) an anticipated savings of $7,879,300 resulting from proposed legislation to eliminate the licensure of family day care homes. The proposed budget also anticipates the enactment of legislation to reinstate fees for licensure of community care facilities. To the extent that county facilities licensed by counties are not exempt from such fees, the collection of these fees may increase county administrative costs. Such costs are not included in the proposed budget.

Elimination of Family Day Care Licensing. Family day care homes, as defined by state law, provide care, protection and supervision for up to 12 children in the caregiver's own home, for less than 24 hours, while the children's parents or guardians are away. The Department of Social Services estimates that 22,030 family day care homes would be licensed by counties during 1981–82. The estimated savings of $7,879,300 as a result of the elimination of licensing was derived by (1) applying the proposed state workload standard of 129 family day care facilities per evaluator to the projected caseload, and (2) adding the estimated cost of nonevaluator support staff. To the extent that county costs per position are overestimated and counties exceed the workload standard of 129 facilities per evaluator, this estimate may overstate actual savings.

Workload Standards Contain Unjustified Tasks

We recommend the deletion of unjustified tasks from the proposed allocation standard, for a General Fund reduction of $371,134.

The budget proposes $6,463,700 from the General Fund to support facilities evaluation and licensing by counties under contract with the Department of Social Services. Of this total, $5,776,346 is proposed for the ongoing cost of licensing and evaluating community care facilities. The remaining $687,354 is proposed to support the costs of several regulatory and legislative initiatives. The $5,776,346 proposed for basic costs is based on (1) actual 1979–80 county costs of $23.10 per hour of licensing activity, (2) projection of a stable caseload of 14,974 facilities in 1981–82, and (3) application of a January 1980 workload study of the tasks performed by state-employed licensing staff.

Workload Study. The workload study completed by the Department of Social Services indicates that the *historically accepted* staffing standard—150 licensed day care and 75 licensed residential care facilities per state evaluator—does not accurately reflect the *actual* workload required to evaluate community care facilities. This standard also has been used to allocate funds to the counties for community care licensing. Based on a review of actual time spent and tasks performed, the workload study establishes alternative staffing standards for seven distinct categories of facilities, rather than the two broad categories currently used.

We have identified two components which we do not recommend be included in the workload standards: (1) evaluations of community care facilities within 90 days after initial approval of a license to operate (post-licensing evaluations) and (2) caseload management.

Post-Licensing Evaluation. The proposed staffing standard includes time for evaluators to visit each facility within 90 days after an operating license has been approved. The department advises that these visits may reduce (1) the amount of time required for annual visits and (2) the number of complaints received regarding violations of licensing regulations. The department, however, is unable to document the extent to which the proposed visits are likely to achieve these results. In addition, because these post-licensing visits have not been conducted on a uniform basis in the past, we are unable to verify the amount of time included for this activity. As a result, we have no analytical basis to recommend that this activity be provided for in the proposed workload standard.

Caseload Management. The proposed workload standard also includes a "caseload management" component, which increases by 20 percent the amount of time required for facilities evaluation. This component includes several tasks, such as case file review and drop-in visits, which are already performed as part of other tasks. We recommend that increases for the caseload management component of the staffing standard be reduced from 20 percent to 10 percent, in recognition of this duplication.

Projection of Licensed Facilities. The proposed county licensing budget assumes that the number of county-licensed facilities will remain constant during 1981–82. Our analysis of past trends in county-licensed facilities, other than family day care homes, indicates this is an appropriate assumption. The department estimates that during 1981–82, counties will license 100 adult day care homes, 13,200 foster family homes and 1,674 other family homes.

Existing statute contains specific policies and procedures for licensing community care facilities. Based on available information, we cannot recommend the addition of the two identified components to the workload standards for this program. Therefore we recommend that post-licensing evalutions and a portion of caseload management activities be deleted from the workload standard, for a General Fund reduction of $371,134. Table 11 identifies how this recommendation would affect the department's proposed workload standards.

Table 11
Department of Social Services
Alternative Staffing Standards
for Facilities Evaluators
(Facilities per Evaluator)

Facility Category	*Existing Standard*	*Proposed Standard*	*LAO Proposed Adjusted Standard*
Day Care	150		
Family day care		129	143
Other day care		104	114
Residential Care	75		
Foster family homes		115	126
Other family homes		113	124
Group homes for children		67	73
Other group homes		51	56
Homefinding agencies		84	84

Adoptions

The Department of Social Services administers a statewide program of services to parents who wish to place children for adoption and to persons who wish to adopt children. Adoptive services are provided through three state district offices, 28 county adoptions agencies and eight private agencies. There are three major adoptions programs: (1) relinquishment adoptions, in which a child is released from parental custody and placed in an adoptive home; (2) independent adoptions, in which the natural parents and adoptive parents agree on placement without extensive assistance from an adoptions agency; and (3) intercountry adoptions which involve children from countries other than the United States.

DEPARTMENT OF SOCIAL SERVICES—Continued

The adoptions program is primarily supported from the General Fund, although a fee of up to $500 is collected from adoptive parents. The General Fund supports casework provided by the state and county agencies, and reimburses private adoptions agencies for placement of hard-to-place children.

Current year savings. The Governor's Budget estimates current year savings of $309,889 in the adoptions program. The department advises that this estimated savings is based on (1) receipt of more recent information regarding the number of adoptive placements and the cost per adoptive placement ($240,476), (2) a revised methodology for estimating fee revenues collected from adoptive parents $46,838), and (3) reductions in anticipated costs for implementing the federal Indian Child Welfare Act (PL 95-608) and reimbursing private adoptions agencies for services provided to "hard-to-place" children ($22,575). This estimated current year savings will be revised during the May 1981 revision of expenditures.

Budget proposal. The budget proposes $16,946,994 to support the state adoptions programs in 1981–82, which is an increase of $405,048, or 2.4 percent, over *revised* estimated current year expenditures. This increase is based on (1) an anticipated increase in the number of adoptive placements from 2,647 to 2,712 in 1980–81 and 1981–82, respectively, and (2) a corresponding increase in the revenue anticipated as a result of the collection of fees for adoptions services.

Cost for Adoptive Placement Overestimated

We recommend deletion of overbudgeted funds for county-operated adoptions programs, for a General Fund reduction of $167,492.

The $16,946,994 proposed in this item for the state adoptions program includes $16,741,144 to reimburse county adoptions agencies, and $205,850 to reimburse private adoptions agencies and implement the provisions of the Federal Indian Child Welfare Act. County adoptions agencies submit quarterly claims for reimbursement for adoptions services delivered to birth parents, adoptive parents and children. The state is required by statute to reimburse these county claims after it deducts revenue generated through the collection of fees from total costs. The state, however, may specify allowable county costs and is not required by law to increase funding for the adoptions program to provide for anticipated caseload increases or cost-of-living and overhead increases for county employees.

Estimate of Unit Cost Based on Single Quarter. The budget proposal of $16,741,144 to reimburse county adoptions agencies is based on a projection of 2,712 placements of children in adoptive homes during 1981–82. Of these placements, 2,652 are anticipated to be relinquishment and independent adoptions and 60 are intercountry adoptions. These caseload projections were multiplied by the average costs per adoptive placement—$4,973 for intercountry adoptions and $6,340 for other adoptions programs—to determine the proposed 1981–82 request.

The Department of Social Services advises that these unit costs were derived using the reported caseload and county reimbursement claims for the fourth quarter of 1979–80. In past years, the unit cost used for estimating expenditures for the adoptions program has been based on actual cost per placement over an entire year. The department advises that only the last quarter of 1979–80 was used for this estimate because costs during the first three quarters were not representative of total program costs. According to the department, county adoptions agencies had experienced deficits in previous fiscal years and felt compelled to hold down costs arbitrarily during the first three quarters of 1979–80 in order to avoid a further deficiency.

We have three problems with the use of fourth quarter, rather than full year, data. First, our analysis of expenditures for the state adoptions program in the two years prior to 1979–80 indicates that there was a surplus of funds budgeted for adoptions in both 1977–78 and 1978–79. In fact, a portion of the General Fund amount budgeted for the adoptions program in 1978–79 was transferred, at the request of the Department of Social Services, to fund a portion of the 1978–79 deficit in the In-Home Supportive Services program. Second, our review of quarterly costs per adoptive placement since 1974–75 indicates that unit costs were higher than the fourth quarter of 1979–80 only once during that six-year period. Finally, our analysis indicates that fourth quarter claims have been higher than the previous three quarters in four of the last six years.

Projected unit cost based on full-year data. Using actual 1979–80 costs claimed as of January 20, 1980, ($14,529,960) and placements as reported in the department's publication, *Adoptions in California,* we estimate 1981–82 expenditures of $16,573,652 for reimbursement of county adoptions agencies, rather than the $16,741,144 proposed in the budget, a difference of $167,492. Because full year costs more accurately reflect the actual experience of the adoptions program, we recommend using these costs for budgeting purposes, for a General Fund savings of $167,492.

Social Services for Refugees

We recommend the Department of Finance advise the Legislature during budget hearings regarding the administration's plans in the event the state does not receive $49.9 million in anticipated federal funds for social services to refugees.

The Comprehensive Refugee Assistance Act authorizes 100 percent federal support of social services provided to refugees, without a time limit on individual eligibility. The concurrent resolution on the federal fiscal year 1981 budget (HJR 644), however, limits to $93.7 million the amount of federal funds available for social services to refugees. California's allocation of these funds in 1980–81 is $25,014,400. This is $6 million less than estimated expenditures for the current year. This allocation may be increased if additional federal funds are made available (special funding for Cuban/Haitian entrants, as an example) or if other states fail to spend their share of these funds.

Budget Proposal—Federal Funds Uncertain. The budget proposes $49,893,965 in federal funds for social services to refugees. This is an increase of $18,818,324, or 37.7 percent, over estimated current year expenditures. The funds would be used to deliver social services to refugees, pursuant to the Federal Comprehensive Refugee Act of 1980 (PL 96-212). Of the proposed total, $40,482,334 would be used to continue and expand a network of contracts with private agencies which provide social services, job placement and training in English as a second language. The remaining $9,411,631 would be allocated to county welfare departments for the provision of services to refugees.

The budget proposes to use federal fiscal year 1982 refugee funds during state fiscal year 1981–82. The proposed 1982 federal budget, however, contains only $70.0 million in federal funds for nationwide services to refugees. If this proposed federal appropriation level is not increased through executive or congressional action, it is unlikely that California would receive the proposed $49.9 million in federal funds for social services to refugees. Because a shortfall in federal funds in the budget year may curtail the anticipated level of service and create a demand for General Fund support of these services, we recommend that the Department of Finance advise the Legislature during budget hearings of the administration's plans in the event the amount of federal funds anticipated in the budget does not materialize.

DEPARTMENT OF SOCIAL SERVICES—Continued

Title XX Training

The Title XX training program consists of (1) county administered staff development, (2) services training conducted by universities for county welfare department staff, and (3) training for direct service providers, such as foster parents, child care workers and providers of in-home supportive services.

The 1980 Budget Act authorized two positions in the Department of Social Services to administer and monitor the state's Title XX training program. These positions are limited to June 30, 1982. During the current year, the department has redirected two additional positions for this purpose. In a status report required by the 1980 Budget Act, the department advises that in the current year, (1) proposals have been accepted and contractors selected to provide training to child day care workers and foster parents, and (2) a uniform budget format for private vendors, a standard written agreement between students and their county welfare department employers and a quarterly reporting system were developed for Title XX training contractors.

Federal Funds Reduced

We recommend the Department of Finance advise the Legislature during budget hearings of the administration's plans in the event that federal Title XX training funds available in 1981–82 are less than budgeted.

The budget proposes $15,666,667 for Title XX training programs in 1981–82, consisting of $11,600,000 in federal funds, $3,231,000 in matching funds from contractors and $835,667 in matching funds from counties. Prior to the passage of PL 96-86, which became effective in federal fiscal year 1980, federal grants for Title XX training were unlimited. This act established a nationwide spending cap of $75 million for Title XX training programs. Under this spending limit, California's final allocation for federal fiscal year 1980 was $6,147,747.

Additional federal legislation enacted in 1980, the Adoption Assistance and Child Welfare Act of 1980 (PL 96-272), authorized the allocation of federal Title XX training funds in an amount up to 4 percent of the state's total federal Title XX social services allocation. This equals approximately $11.6 million for California in 1980–81. Beginning in federal fiscal year 1982, however, PL 96-272 allows federal Title XX training funds to be allocated only on the basis of an approved state training plan. Despite the higher authorization level contained in PL 96-272, Congress again appropriated $75 million for this program in federal fiscal year 1980. The concurrent resolution on the 1981 federal budget (HJR 644) also contains $75 million.

A report submitted December 18, 1980 to the Joint Legislative Budget Committee by the Department of Social Services advised the Legislature that (1) 1980–81 allocations to the state's Title XX training programs were being reduced in proportion to the reduction in federal funds from $11.6 million to $6,147,747, and (2) the appropriate Title XX training budget level for 1981–82 is $6,147,747. The 1981–82 budget, however, proposes $11.6 million in federal Title XX training funds.

Our analysis indicates that the budget contains more federal funds for Title XX training than the state can expect to receive, given past and current federal funding levels. As a result, the administration probably will be unable to accomplish the proposed program objectives for Title XX training. Therefore, we recommend the Department of Finance advise the Legislature during budget hearings of the administration's plans for reducing the proposed level of service if federal funds are not received at the anticipated level.

Demonstration Programs

The budget proposes to terminate funding for three projects: (1) the Family Protection Act (Chapter 21, Statutes of 1977) projects in San Mateo and Shasta Counties, (2) respite care projects for abused or neglected children and their families in four counties funded by Chapter 1353, Statutes of 1979, and (3) an in-home supportive services project to develop a model for conducting equitable needs assessments.

The budget also proposes to carry forward $432,837 in funds initially appropriated in the 1979 Budget Act for the multipurpose senior services project. This project is discussed in our analysis of the Health and Welfare Agency Secretary, Item 053. In addition, the budget anticipates continued federal support of $269,037 for child abuse demonstration projects. The budget also proposes $1,597,346 in General Fund support for a program of access services for the deaf and hearing-impaired as established by Chapter 1193, Statutes of 1980.

Department of Social Services
LOCAL MANDATES

Item 518-101 (g) from the General Fund — Budget p. HW 181

Requested 1981–82	$8,458,000
Estimated 1980–81	8,350,320
Actual 1979–80	7,074,577
Requested increase $107,680 (+1.3 percent)	
Total recommended reduction	$8,440,400

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***IHSS Executive Mandate. Reduce by $2,696,000.*** Recommend deletion of funding for the IHSS executive mandate. 1053
2. ***AFDC Legislative Mandate. Reduce by $5,744,400.*** Recommend reduction of the amount budgeted to reimburse counties for the mandate resulting from enactment of Chapter 348, Statutes of 1976 (AB 2601). 1054

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation to reimburse local governments for executive and legislative mandates. The budget proposes to reimburse counties for implementing four executive regulations and three legislative mandates involving programs administered by the Department of Social Services.

Executive Mandates

1. **Regulations for the In-Home Supportive Services Program.** The budget proposes to reimburse counties for social worker time spent implementing regulations for the In-Home Supportive Services (IHSS) program dated April 1, 1979. The department anticipated that these regulations would impose a higher level of service on counties as a result of the requirements that counties (1) assess the need for in-home supportive services for clients in shared living situations, (2) report on teaching and demonstration of homemaking skills, and (3) review the need for protective supervision for IHSS recipients.

LOCAL MANDATES—Continued

2. **Treatment of Loans—AFDC and APSB Programs.** The department has implemented regulations which change the method of treating loans when calculating a recipient's grant level under the AFDC and APSB programs. Under the previous regulations, loans made to recipients were counted as income when determining a recipient's grant. The new regulations exclude loans as countable income.

3. **Work-Related Equipment—AFDC Program.** The department has implemented regulations which exclude the entire value of an AFDC recipient's work-related equipment in determining eligibility for benefits. Previous regulations provided a maximum exemption for work-related equipment of $200.

4. **Employment Services Registration—AFDC Program.** AFDC recipients in 31 counties are required to register for the Work Incentive (WIN) program. Recipients in non-WIN registration counties are required to register with the Employment Services (ES) program in the Employment Development Department. As a result of executive regulations, a standard exemption criterion was adopted for both programs.

Legislative Mandates

In addition to these executive mandates, this item includes funding for three legislative mandates.

1. **Six Percent Increase in AFDC Grants.** Chapter 348, Statutes of 1976, increased the AFDC welfare payment standard by 6 percent effective January 1, 1977, in order to provide a higher standard of living for AFDC recipients. Normally, counties pay a portion of AFDC grant costs. However, because the state mandated the 6 percent increase, it is obligated to reimburse counties for their share of the cost.

Chapter 348 disclaims any obligation on the state's part to reimburse counties for cost-of-living increases in payment standards. As a result, cost-of-living increases do not affect the state's level of reimbursement on a cost-per-case basis.

2. **Peace Officer Status for Welfare Fraud or Child Support Investigators.** Chapter 1340, Statutes of 1980, designates welfare fraud or child support investigators as peace officers if they are regularly employed and paid as such by the county. The department estimates that this will result in additional salary and training requirements for current investigators.

3. **Inventory of Foster Care Caseload.** Chapter 1229, Statutes of 1980, appropriated $250,000 for reimbursement of counties for costs incurred for conducting an inventory of children in foster care beginning in January 1981. The Department of Social Services advises that the implementation of this legislation will be completed by October 1981.

ANALYSIS AND RECOMMENDATIONS

The budget proposes a General Fund appropriation of $8,458,000 to reimburse executive and legislative mandates in 1981–82. Of this amount, $2,713,600 is to reimburse counties for the cost of implementing various executive regulations. The remaining $5,744,400 is to reimburse counties for local mandates contained in specific legislation.

The budget states that legislative mandates are underfunded by $172,400 in the current year. Most of this is due to an unanticipated increase in caseload during 1980–81.

The proposed 1981–82 appropriation represents an increase of $107,680, or 1.3 percent, over estimated 1980–81 expenditures. Table 1 details the costs of each of the local mandates funded in this item.

Table 1
Department of Social Services
General Fund Expenditures for Local Mandates
1980–81 and 1981–82

	Estimated 1980–81	Proposed 1981–82	Change	
			Amount	Percent Change
Executive Mandates				
IHSS uniform program regulations	$2,502,820	$2,696,000	$193,180	7.7%
AFDC treatment of loans	4,500	4,500	-	-
AFDC employment-related equipment	9,500	9,500	-	-
AFDC employment services registration	3,600	3,600	-	-
Legislative Mandates				
AFDC grant increase (Ch. 348/1976)	5,573,700	5,744,400	170,700	3.1
Investigator status (Ch. 1340/1980)	6,200	-	−6,200	−100
Foster care inventory (Ch. 1229/1980)	250,000	-	−250,000	−100
Totals	$8,350,320	$8,458,000	$107,680	1.3%

IHSS Executive Mandate

We recommend that funding for the IHSS executive mandate be deleted, for a General Fund savings of $2,696,000.

Our analysis indicates that the appropriation of funds for this mandate is not warranted because (1) the counties have not been able to document any actual costs incurred as a result of the IHSS regulations, (2) the formula used by the Department of Social Services (DSS) to allocate the local mandate funds is not tied to the actual costs resulting from the three new IHSS requirements, and (3) separate reimbursement for any costs incurred as a result of these regulations may not be necessary if the Superior Court's decision in the Sacramento County vs. State of California case is upheld.

Actual Costs Not Documented. The $2.7 million requested in the budget is based on (1) a DSS estimate of anticipated 1979–80 costs resulting from the April 1979 regulations, and (2) caseload and cost-of-living adjustments for 1980–81 and 1981–82. Because counties have not been required to submit claims for reimbursement of costs resulting from this mandate, the Department of Social Services is unable to identify the actual costs of the regulations.

In a survey conducted by our office in October 1980, we contacted 10 counties which, together, accounted for 79 percent of the state's 1979–80 IHSS expenditures. None of these counties could document increased local costs associated with the new regulations. Three of the 10 counties surveyed indicated that they had incurred undeterminable increased costs due to the provisions requiring specific actions for shared living assessments. Because there is no information available on the actual costs of this mandate, it is impossible to verify (1) the need to fund this mandate, or (2) the initial DSS estimate of anticipated local costs.

Allocation Formula Not Tied to Mandated Costs. Our analysis has identified two major problems with the allocation formula used by the Department of Social Services to distribute these funds in 1979–80 and 1980–81: (1) actual costs are not included in the formula, and (2) the formula rewards counties which overspend their allocations for Other-County Social Services. As a result, the allocation formula in effect provides counties with state funds for a broad range of social services programs, rather than solely for the reimbursement of local mandated costs, as intended by the Legislature.

Pending Litigation Includes Costs of Executive Mandate. In a case that is now before the Court of Appeal (Sacramento County vs. State of California), several counties contend that the state is responsible for funding the entire nonfederal

LOCAL MANDATES—Continued

share of all costs related to the operation of the IHSS program, including administration and assessment. The counties' contention is based on (a) Welfare and Institutions Code Section 12306 which states "as regards IHSS, the state shall pay the matching funds required for federal social services from the state's General Fund," and (b) the requirement that the state shall reimburse each local agency for all costs mandated by the state by statute or executive order enacted after January 1, 1973 (Revenue and Taxation Code Section 2207).

The Sacramento County Superior Court has decided in favor of the counties. The state has appealed the court's decision on the basis that counties were supporting these activities prior to 1973.

If the Superior Court decision is upheld, it would increase costs to the General Fund by approximately $35 million. Under the decision, the costs associated with the April 1979 regulations would be treated as part of the IHSS administrative costs and would not require separate reimbursement.

In sum, Section 2207 of the Revenue and Taxation Code requires that, to receive reimbursement of state mandated local costs, units of local governments must show that the mandate resulted in increased costs based on increased levels of service. The inability of the counties to document increased costs as a result of this mandate suggests that any costs associated with this mandate probably have been minor and were absorbed within existing program budgets. If, in the future, counties are able to document costs associated with the April 1979 regulations, these costs should be funded (a) in the same manner as the other IHSS administrative costs, if the Superior Court's decision in the Sacramento County suit is upheld or (b) through the normal claims review process in the State Controller's office, if the decision is overturned. We therefore recommend that funding for this mandate be deleted from the 1981 Budget Bill. To the extent that counties are able to document increased costs resulting from the regulations and submit valid claims to the State Controller, a portion of these funds may still be required.

AFDC Legislative Mandate

We recommend that funds budgeted to reimburse counties for the legislative mandate resulting from enactment of Chapter 348, Statutes of 1976 (AB 2601) be deleted, for a savings of $5,744,400 to the General Fund.

Background. Chapter 348, Statutes of 1976, increased by 6 percent the grant amounts provided under the Aid to Families with Dependent Children (AFDC) program, effective January 1, 1977. Table 2 shows the increased payment standards, as a result of the act, for families with one through four persons. The 6 percent increase was in addition to the annual cost-of-living increase required by the Welfare and Institutions Code.

Table 2
AFDC Maximum Aid Payment Standards
Resulting from Chapter 348, Statutes of 1976

	Payments As Of		
Family Size	*December 1976*	*January 1977*	*Increase*
1	$157	$166	$9
2	258	273	15
3	319	338	19
4	379	402	23

Normally, increased grant costs in the AFDC program are shared by the federal, state and county governments. At the time that Chapter 348 became effective, the federal government paid 50 percent of grant costs, the state paid 33.7 percent, and the county paid 16.3 percent.

Chapter 348 identified the county share of the cost for the 6 percent increase as a reimbursable state-mandated cost, and appropriated $8.5 million from the General Fund to reimburse counties for costs incurred during the last six months of 1976–77. In subsequent years, the Budget Act has provided funds to reimburse counties for their costs. The statute disclaimed state reimbursement for the county share of subsequent annual cost-of-living increases.

Table 3 shows the amounts budgeted and expended for this mandate since 1976–77.

Table 3
Local Mandate Expenditures for AFDC
Six Percent Grant Increase
1976–77 to 1980–81

	1976–77	*1977–78*	*1978–79*	*1979–80*	*1980–81*
Budgeted	$8,500,000 [a]	$23,592,447	$19,442,437	$14,891,400	$5,407,500
Expended	2,821,953	20,781,043	15,521,623	5,109,700 [b]	5,573,700 [c]

[a] Half-year costs for January–June 1977.
[b] Because AB 8 increased the state share of AFDC grants from 33.7 percent to 44.6 percent, actual expenditures for the local mandate were less than the amounts appropriated in the 1979 Budget Act.
[c] Based on Department of Social Services' November 1980 estimate of anticipated expenditures.

Analysis. Chapter 348 clearly imposed an increased level of service and additional costs on the counties by increasing AFDC grants 6 percent. It was therefore appropriate, when the statute was enacted, for the state to fund the mandated costs. The enactment of AB 8, however, has called into question the need to continue funding this mandate.

As a result of the passage of AB 8, the counties were required to assume 5.4 percent of the AFDC grant costs and 25 percent of the administrative costs, starting in 1979–80. In order to provide counties with a revenue source to fund their share of the AFDC grant and administrative costs, AB 8 shifted $115.6 million in property tax revenue from school districts to the counties. Of the $115.6 million transfer, $96.2 million was for AFDC assistance payments and $19.4 million was for AFDC administration.

Funding No Longer Justified. AB 8 is silent on the intent of the property tax revenue transfer of $115.6 million. Thus, it is unclear whether the transfer was intended to provide a dollar-for-dollar offset for county AFDC costs or whether it was intended simply to give the counties another revenue source for financing some of their welfare costs. Nevertheless, we have determined that the method for calculating the $96.2 million transfer for assistance payments resulted in the shift of funds to the counties *for their share of the 6 percent AFDC mandate.* Because the property tax revenue shift included funds to cover the county's share of the 6 percent grant increase, our analysis indicates that continued funding for these costs in the local mandate item results in double-funding. We therefore recommend a reduction of $5,744,400.

DEPARTMENT OF SOCIAL SERVICES—REAPPROPRIATION

Item 518-490 from the General Fund

We recommend approval.

This item reappropriates funds from Item 274(i), Budget Act of 1978, for use in the multipurpose senior services project (MSSP). The act appropriated $1,500,000 in 1978. The budget anticipates that an unencumbered balance of $432,837 will remain at the end of the current year. This item would make the balance available to MSSP in 1981–82.

Two reasons account for the delay in the expenditure of these funds. First, the Health and Welfare Agency, whose responsibility it is to implement MSSP, was not able to secure all the necessary waivers to obtain federal funding, until March 1980. Secondly, the acquisition of full caseload for the project has ben delayed. Consequently, the sites will not reach full caseload capacity until April 1981. MSSP should be in full operation by the time the reappropriated funds are made available in the budget year.

The Department of Social Services has advised our office that the unencumbered balance may fluctuate during the current year, depending on the availability of other funds which can be used for MSSP. If additional funds are made available to the project during 1980–81, our analysis indicates that the balance from Item 274(i), Budget Act of 1978, will exceed $432,837.

DEPARTMENT OF SOCIAL SERVICES—REVERSIONS

Item 518-495 from the General Fund

We recommend approval.

This item reverts the unencumbered balances from Chapter 363, Statutes of 1975, and Chapter 1241, Statutes of 1978, to the General Fund.

1. ***Section 2, Chapter 363, Statutes of 1975, Reimbursement of Private Adoptions Agencies.***

Chapter 363, Statutes of 1976 (SB 252), appropriated $64,000, from the General Fund, to the Department of Social Services for the reimbursement of private adoptions agencies which assist in the placement of a child who is under the custody and control of a public adoptions agency. The funds were appropriated without regard to fiscal year.

As part of the statute, private agencies were allowed to claim up to $1,000 per placement, less fees received from adoptive parents. Chapter 489, Statutes of 1979, raised the maximum placement reimbursement to $1,500. The 1980 Budget Act appropriated $64,000 to the Department of Social Services to cover the costs of these reimbursements in 1980–81.

Because the Department of Social Services has budgeted funds in 1980–81 and in 1981–82 to reimburse private agencies for their costs, we recommend approval of this reversion.

2. ***Section 4, Chapter 1241, Statutes of 1978.***

Chapter 1241, Statutes of 1978 (SB 768), required the Department of Social Services to study and prepare a preliminary and final report on state administration of welfare and social services programs currently administered by county governments. The statute appropriated $200,000 from the General Fund to the department for this study.

The preliminary report was submitted to the Legislature on October 13, 1978. The department's final report was received by our office on April 9, 1979. It recommended the implementation of a Centralized Delivery System which would store and index case records, verify eligibility, compute grant amounts and issue warrants. Many of the final report's recommendations were incorporated into AB 8 (Chapter 242, Statutes of 1979).

The Department of Social Services was able to complete the required study with existing staff and resources. The $200,000 provided for additional staff was not encumbered, and therefore, we recommend approval of this reversion.

Health and Welfare Agency

CALIFORNIA HEALTH FACILITIES COMMISSION

Item 519 from the California Health Facilities Commission Fund — Budget p. HW 194

Requested 1981–82	$2,700,530
Estimated 1980–81	2,421,896
Actual 1979–80	2,051,787
Requested increase (excluding amount for salary increases) $278,635 (+11.5 percent)	
Total recommended reduction	None
Recommendation pending	$272,405

SUMMARY OF RECOMMENDATIONS

Analysis page

1. Data Processing Improvements. Withhold recommendation on $272,405 requested for data processing positions and equipment, pending analysis of cost data. 1059

GENERAL PROGRAM STATEMENT

The California Health Facilities Commission collects patient and financial data from hospitals and nursing homes and discloses those data to government agencies and the public.

The commission was created by Chapter 1242, Statutes of 1971, which also required that a uniform financial accounting and reporting system be developed for hospitals. Chapter 1171, Statutes of 1974, extended these accounting and reporting requirements to long-term care (LTC) facilities. The purposes of the financial disclosure requirements are to: (1) encourage economy and efficiency in providing health care services, (2) enable public agencies to make informed decisions in purchasing and administering publicly financed health care services, (3) disseminate financial data on health facilities to private third-party payors and the public, (4) assist local health planning agencies, and (5) create a body of reliable data for research.

Chapter 1337, Statutes of 1978, expanded the commission's responsibilities to include: (1) establishing standards of effectiveness for health facilities, and (2) forecasting hospital operating and capital expenditures for each of the state's health service areas for use by Health Systems Agencies in developing area health plans.

CALIFORNIA HEALTH FACILITIES COMMISSION—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes an appropriation of $2,700,530 from the California Health Facilities Commission Fund to support commission activities in 1981–82. This is an increase of $278,634, or 11.5 percent, above estimated current year expenditures. This amount will increase by the amount of any salary and staff benefit increases approved by the Legislature for the budget year. The primary components of the proposed increase are:

(1) establishment of five new positions in the Accounting Branch, at a cost of $103,451;

(2) installation of computer equipment and establishment of six new positions for key data entry, at a cost of $272,405. These changes would allow the commission to terminate an existing contract for key data entry and data processing, for a net cost savings of $112,832; and

(3) establishment of five new positions to implement Chapter 594, Statutes of 1980 (SB 1370), which requires the collection of quarterly financial and patient discharge data.

The budget identifies a total of 78.1 positions, which is an increase of 17.0 above the number authorized in the current year. Table 1 identifies the proposed new positions and the resulting cost or cost savings to the California Health Facilities Commission Fund.

Table 1
California Health Facilities Commission
Proposed New Positions, 1981–82

Description	*Number*	*Cost*
1. Accounting Branch	5.0	$103,451
2. Data Processing	6.0	–112,832
3. SB 1370 Implementation	5.0	233,761
4. Clerical Workload	1.0	–
Totals	17.0	$224,380

Accounting Branch Workload

We recommend approval.

The budget proposes the establishment of five new positions in the accounting branch to increase the productivity of health facility reports processing and to improve data quality.

Currently, three of the nine staff in this branch are student assistants. Because of a high rated turnover in these positions, productivity in processing health facility reports has declined markedly since early 1979, resulting in a large backlog of unprocessed long-term care reports. The commission has administratively established three part-time positions in the current year to eliminate this backlog. To eliminate the ongoing problem of declining productivity, the commission is proposing to eliminate the student assistant positions and replace them with three accounting technicians on a permanent basis. The net cost of establishing these positions is $8,469.

The commission further proposes establishment of two accounting officer positions to operate an editing system designed to reduce error rates in the health facility financial disclosure statements. The cost of these positions and associated key entry and data processing support is $94,982.

Our analysis of these proposals indicates that they are justified. We recommend approval.

Data Processing Improvements

We withhold recommendation pending analysis of cost data.

Currently, the commission contracts with the Franchise Tax Board (FTB) for a major portion of its key data entry and data processing workload. Because of increased charges, processing times, and high error rates, the commission proposes to discontinue its contract with FTB and to assume all key data entry and data processing duties in-house. Accordingly, it proposes to establish six new positions and to purchase data processing equipment and software packages. The cost of these new positions and data processing support in 1981–82 is $272,405. The estimated cost of the equivalent FTB services in 1981–82 is $385,237. Thus, the establishment of these new positions and the associated adaptations to the commission's data processing capabilities is estimated to result in 1981–82 cost savings of $112,832.At the time this analysis was prepared, we had not analyzed all the data supplied by the commission to verify the estimate. We withhold our recommendation at this time, pending completion of that analysis.

Our analysis and recommendation concerning this proposal will be presented in a supplemental analysis submitted by March 1, 1981.

Implementation of Chapter 594, Statutes of 1980

We recommend approval.

Chapter 594, Statutes of 1980 (SB 1370), expanded health facility financial disclosure requirements to include disclosure of:

(1) summary financial data on a quarterly basis, and
(2) patient discharge data, including data on patient characteristics, admission, diagnosis, primary procedure, and disposition upon discharge.

Collection of patient discharge data will improve the commission's data analysis capabilities significantly, because discharge data will allow the commission to compare costs of hospitals with similar caseload and procedural mixes. The commission's current data base does not allow such comparisons. Without controlling for variation in caseload and procedural mixes among hospitals, it is difficult to determine whether various hospital cost containment policies, such as the California Voluntary Effort, are effective.

The budget proposes to establish (1) one new accounting officer position to implement the quarterly reporting requirements and (2) two new professional and two new clerical positions to implement the discharge data program and to begin processing and analysis of discharge data in the final quarter of 1981–82. The cost of these six positions and their associated data processing support is $233,761.

Our analysis of the commission's proposal indicates that these positions are required to implement the requirements of Chapter 594. We recommend that they be approved. The Legislature should be aware, however, that hospitals will only begin to disclose discharge data at the end of 1981–82. The commission, therefore, is likely to request additional staff in its budget for 1982–83, when substantial workload increases are anticipated in the discharge data program.