Health and Welfare Agency

STATE COUNCIL ON DEVELOPMENTAL DISABILITIES AND AREA BOARDS ON DEVELOPMENTAL DISABILITIES

Item 4100 from the Federal Trust Fund and Item 4110 from reimbursements — Budget p. HW 1-3

Requested 1985-86	$3,895,000
Estimated 1984-85	4,180,000
Actual 1983-84	3,649,000
Requested decrease $285,000 (-6.8 percent)	
Total recommended reduction	None

1985-86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4100-001-890—State Council on Developmental Disabilities	Federal	$3,895,000
—Support		(836,000)
—Community Program Development		(1,025,000)
—Allocation to Area Boards		(2,034,000)
4110-001-001—Area Boards on Developmental Disabilities	Reimbursements	—

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Unanticipated Federal Funds. Recommend adoption of Budget Bill language requiring the state council to allocate to community program development any federal funds it receives in excess of the amounts appropriated by the Legislature. 613

GENERAL PROGRAM STATEMENT

The State Council on Developmental Disabilities operates pursuant to the provisions of the Lanterman Developmental Disabilities Services Act (Ch 1365/76) and related federal law. The council is responsible for planning, coordinating, monitoring, and evaluating the service delivery system for persons with developmental disabilities.

There are 13 Area Boards on Developmental Disabilities that operate pursuant to Ch 1367/76. Area boards are regional agencies responsible for protecting and advocating the rights of developmentally disabled persons, promoting the development of needed services, assisting the state council in planning activities, and conducting public information programs.

The state council and area boards are authorized 50.1 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $3,895,000 from federal funds for support of the state council and area boards in 1985-86. This is a reduction of $285,000, or 6.8 percent, below estimated current-year expenditures. The decrease reflects the fact that certain one-time federal funds available in 1984-85 will not be available in the budget year. These additional funds were used for (1) state council and area board equipment ($170,000) and (2) program development grants ($274,000). If these one-time expenditures are deducted from current-year expenditures, the level of funding proposed in the budget represents an increase of $68,000, or 2.5 percent. The budget contains $91,000 to fund employee compensation increases for the state council and area boards in 1985–86.

Table 1 displays how the budget proposes to allocate federal funds to the state council, area boards, and community development.

Table 1
State Council and Area Board Expenditures
Federal Funds
1983–84 through 1985–86
(dollars in thousands)

	Actual 1983–84	*Estimated 1984–85*	*Proposed 1985–86*	*Change Amount*	*Change Percent*
State council	$742	$956	$836	−$120	−12.6%
Area boards	1,811	1,925	2,034	109	5.7
Program development	1,136	1,299	1,025	−274	−21.1
Subtotals	$3,689	$4,180	$3,895	−$285	−6.8%
Less: reimbursements	−40	—	—	—	—
Totals	$3,649	$4,180	$3,895	−$285	−6.8%

The budget proposes a total of 50.1 positions for these programs in 1985–86, including 12.6 for the state council and 37.5 for the area boards. This represents no change from the current year.

ANALYSIS AND RECOMMENDATIONS

Budgeting for Unanticipated Federal Receipts

We recommend that the Legislature adopt Budget Bill language requiring the state council to allocate to community program development any federal funds it receives in excess of the amounts appropriated by the Legislature.

The 1985 Budget Bill does not include language that was placed in the 1984 Budget Act by the Legislature as a means of assuring that any federal funds received in excess of the amounts appropriated by the Legislature be utilized for program development.

In each of the fiscal years 1981–82 through 1983–84, the state council and area boards received and expended a substantial amount of federal funds that were not appropriated by the Legislature. The expenditure of these funds was authorized by the Department of Finance through the Section 28 process. The funds became available as the result of (1) the unanticipated carry-over of federal funds from one fiscal year to the next and (2) supplemental grant awards to California made by the federal government. The additional funds were used to augment state council and area board operating expense budgets, to purchase word processing equipment for area boards, and to fund additional program development grants.

These allocations were not consistent with legislative priorities. The Legislature, in recent years, has expressed through the annual Budget Act its policy that funding be directed towards community program development and maintenance, rather than to administrative expenses and equipment.

The principal problem with allowing unanticipated funds to be allocat-

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

ed for expenditure through the Section 28 process is that the allocation occurs without full review by the Legislature. This tends to weaken legislative control of the budget and allows the administration to set program priorities.

To enhance legislative control of expenditures, we recommend that the Legislature adopt Budget Bill language requiring the state council to use for community development any federal funds it receives in excess of the amounts appropriated by the Legislature. This would (1) ensure that additional funds will not be allocated for administrative and oversight activities or for equipment purchases and (2) direct funding to new community program development, in accordance with current legislative policies. Specifically, we recommend that the Legislature adopt the following Budget Bill language:

"In the event federal funds are available to the state council in excess of the amounts appropriated in this item, the additional funds shall be used only for the following purposes, unless the funds are specifically designated by federal law for other purposes:

1. To augment the allocation to the Program Development Fund.
2. To fund the costs of salary and benefit increases approved by the Legislature that exceed the Budget Act appropriation."

Health and Welfare Agency

EMERGENCY MEDICAL SERVICES AUTHORITY

Item 4120 from the General Fund — Budget p. HW 3

Requested 1985–86	$1,392,000
Estimated 1984–85	1,398,000
Actual 1983–84	877,000
Requested decrease (excluding amount for salary increases) $6,000 (−0.4 percent)	
Total recommended reduction	None

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4120-001-001—Support	General	$694,000
4120-001-890—Support	Federal	(164,000)
4120-101-001—Local assistance	General	698,000
4120-101-890—Local assistance	Federal	(1,685,000)
Total		$1,392,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Long-Range Plans. Recommend the adoption of supplemental report language directing the authority to report by December 1, 1985, on its long-term program goals and expected funding requirements. 615

GENERAL PROGRAM STATEMENT

The Emergency Medical Services (EMS) Authority operates under the provisions of the Emergency Medical Services System and the Pre-hospital Emergency Medical Care Personnel Act (Ch 1260/80). The authority is responsible for reviewing local emergency medical services programs and for establishing statewide standards for training, certification, and supervision of pre-hospital personnel classifications, including paramedics.

The authority is also responsible for (1) planning and managing medical response to disasters, (2) administering contracts that provide General Fund support for the operating costs of certain rural EMS agencies, (3) administering the portion of the federal preventive health services block grant allocated for the development of regional EMS systems, and (4) developing regulations and reviewing local plans to implement trauma care systems.

The authority has 15.8 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $1,392,000 from the General Fund for support of the authority's programs in 1985–86. This is a decrease of $6,000, or 0.4 percent, below estimated current-year expenditures. This amount will grow by the amount of salary or staff benefit increases that may be approved for the budget year.

The proposed appropriation from federal funds is $1,849,000, which is a decrease of $227,000, or 11 percent, below current-year expenditures. This decrease reflects the fact that $342,000 in federal funds that were carried over from 1983–84 to 1984–85 will not be available in the budget year. The authority indicates the decrease will affect primarily funds granted to local agencies for special projects.

The budget proposes to continue the current-year staffing at a total of 15.8 positions in 1985–86.

ANALYSIS AND RECOMMENDATIONS

Long-Range Plans

We recommend the adoption of supplemental report language directing the authority to report to the Legislature by December 1, 1985, on its long-term program goals and expected funding requirements.

In the next few years, the role of the EMS Authority is likely to change. First, the authority is nearing completion of several tasks mandated by the Legislature. These tasks include (1) the development and adoption of minimum standards for training and scope of practice for emergency medical technicians, (2) adoption of general systems guidelines for local EMS agencies, and (3) development of regulations for the designation of trauma care systems. Upon completion of these tasks, the authority's role will change from one of regulations development to ongoing review of compliance with the regulations.

Second, several EMS agencies in rural areas that previously were funded during their development stage by federal preventive health services block grant funds are now funding their operating costs through General Fund grants administered by the authority. In 1985–86, this General Fund commitment is budgeted at $698,000 and may increase in later years with the addition of new regional agencies that have completed their federally funded systems development. Current expenditures from federal funds for the development of local agencies and EMS systems could result in substantial General Fund costs in the future.

The authority has begun to identify tasks that it plans to accomplish in future years, including several mandated by the Legislature. We believe the Legislature should have a role in determining the activities to be undertaken by the authority as its role changes from development of emergency medical systems to ongoing monitoring and supporting of established systems. Consequently, we recommend that the Legislature direct the authority to prepare and submit a comprehensive plan of future local agency development, state support activities, and overall funding needs. Specifically, we recommend that the Legislature adopt the following supplemental report language:

"The Emergency Medical Services Authority shall submit to the Legislature by December 1, 1985, a long-term program assessment. This report shall present at least the following: (1) the authority's goals over the next five years, planned activities, and a timetable for their completion, (2) projected General Fund and federal block grant funding needs for local EMS agencies and state administration, and (3) an estimate of state administrative staff needed to accomplish the authority's goals."

Health and Welfare Agency

HEALTH AND WELFARE AGENCY DATA CENTER

Item 4130 from the Health and Welfare Data Center Revolving Fund — Budget p. HW 5

Requested 1985–86	$33,996,000
Estimated 1984–85	32,405,000
Actual 1983–84	25,836,000
Requested increase (excluding amount for salary increases) $1,591,000 (+4.9 percent)	
Total recommended reduction	1,847,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Personal Computer Expenditures. Reduce Item 4130-001-632 by $1.8 million.*** Recommend reduction of Health and Welfare Agency Data Center (HWDC) funds budgeted for personal computers that are not reflected in the budgets of HWDC users. 618
2. ***Programming Positions. Reduce Item 4130-001-632 by $47,000.*** Recommend that the Legislature reestablish two associate programmer positions and reduce the HWDC appropriation by $47,000 to reflect the lower cost of retaining existing positions. 619
3. Temporary Help. Recommend reauthorization of 8.9 personnel-years to reflect anticipated expenditures and workload. 620

GENERAL PROGRAM STATEMENT

The Health and Welfare Data Center (HWDC) is one of three major state data processing centers authorized by the Legislature. The center provides computer support to the Health and Welfare Agency's constituent departments and offices. The center also provides occasional support to other state offices, commissions, and departments. The cost of the center's operation is fully reimbursed by its users.

The HWDC has 227.2 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $33,996,000 from the Health and Welfare Data Center Revolving Fund to support the data center's operations in 1985–86. This is an increase of $1,591,000, or 4.9 percent, above estimated current-year expenditures. The increase does not reflect the additional costs of general salary or staff benefit increases that may be approved for the budget year.

Table 1 identifies the significant changes in expenditures proposed for 1985–86. One of the program change proposals is discussed later in this analysis.

Table 1
Health and Welfare Agency Data Center
Proposed Budget Changes
(dollars in thousands)

1984–85 expenditures (revised)		$32,405
Proposed changes:		
1. Workload adjustments		
a. Expiration of limited-term positions		−69
2. Cost adjustments		
a. One-time development and equipment costs	−$1,976	
b. Inflation adjustment for O.E. and E.	539	
c. Full-year cost adjustments	376	
d. Merit salary adjustments	89	
		−972
3. Program adjustments		
a. Increase dedicated equipment	$2,505	
b. Increase data base management support	214	
c. Data center efficiencies	−139	
d. Equipment for new Calstars users	52	
		2,632
4. 1985–86 expenditures (proposed)		$33,996
Change from 1984–85:		
Amount		$1,591
Percent		4.9%

We recommend approval of the following program changes shown in Table 1 which are not discussed elsewhere:

1. An increase of $2,505,000 for new equipment that is required to provide computer support in the following departments:

- Social Services ($1,430,000)
- Employment Development ($537,000)
- Health Services ($507,000)
- Rehabilitation ($31,000)

2. An increase of $214,000 to support workload increases associated with

a data base management system operated for the Employment Development Department.

3. An increase of $52,000 to support workload increases resulting from nine departments implementing Calstars in 1985–86.

ANALYSIS AND RECOMMENDATIONS

Budgeting for Personal Computer Expenditures

We recommend that the HWDC appropriation be reduced by $1.8 million to eliminate funds requested for the purchase of personal computers, because the funds needed to finance these expenditures are not reflected in the budgets of HWDC users.

In December 1983, the HWDC opened a "personal computer store". The store is the Health and Welfare Agency's central source of information on microcomputer systems. In most cases, microcomputer systems can be purchased by the agency's constituent departments from the store at a favorable price, because the store realizes savings through volume purchases from vendors and passes these savings along to the departments.

Originally, the HWDC anticipated that departments purchasing microcomputers through the store would use funds already budgeted for the purchase of services from the center. This, however, has not occurred. In 1983–84, departments used funds budgeted for purposes other than HWDC services to purchase microcomputer systems. As a result, the Department of Finance found it necessary to increase the HWDC's budget by $862,000 in order to accommodate the unbudgeted expenditures in 1983–84. In July 1984, the Department of Finance increased the HWDC budget for 1984–85 by $1.8 million in anticipation that departments would continue to use funds other than those budgeted for HWDC services to purchase microcomputers. In both cases, the Department of Finance notified the Legislature of its action but did not identify the specific departmental funds that would be used.

The proposed 1985–86 budget for HWDC includes another $1.8 million for microcomputer purchases. Once again, these funds have not been budgeted by the departments to purchase HWDC services.

This method of budgeting funds for microcomputer purchases presents the Legislature with two problems. First, it does not give the Legislature an opportunity to review the appropriateness of microcomputer expenditures within the various departments since the departments do not identify the funds to be used for purchasing microcomputers from the HWDC. Instead, most of these funds are budgeted for various operating expense and equipment expenditures. For example, four major departments in the agency identified only $145,000 in microcomputer-related expenditures. In 1983–84, however, these same departments accounted for $934,000, or over 77 percent, of total HWDC microcomputer costs. If these departments are being counted on to purchase three-fourths of the microcomputers sold by HWDC in 1985–86, there must be another $1 million in these four agencies' budgets that will be redirected from various operating expense and equipment categories to the purchase of microcomputers through the HWDC.

Second, the budget proposal would allow the administration to authorize the redirection of departmental funds for operating expenses and equipment to microcomputer purchases without allowing the Legislature to review these budget adjustments. It is important for the Legislature to be notified of budget savings realized by the departments in case it wishes to redirect these savings to fund its own priorities, rather than purchase additional microcomputers.

In summary, $1.8 million of proposed HWDC expenditures has not been justified because the amount to be spent does not correspond to the amounts budgeted for HWDC purchases by the user departments. Approval of this expenditure authority would weaken legislative control of the budget by limiting meaningful legislative review of department's budgets.

For these reasons, we recommend that the HWDC appropriation be reduced by $1.8 million—the amount proposed for personal computer expenditures, but not reflected in the budgets of the user departments. If this recommendation is approved, it would not preclude departments from purchasing microcomputers from HWDC. If departments choose to spend more money for HWDC purchases than what has been budgeted for that purpose, HWDC can request an increase in its expenditure authority which would have to be reported to the Legislature, pursuant to budget language contained in this item.

Reduced Positions But Higher Costs

We recommend that the Legislature (1) disapprove the proposal to contract out programming workload, (2) reestablish two associate programmer analyst positions, and (3) reduce the HWDC appropriation by $47,000 to reflect the lower cost of retaining the existing personnel.

In accordance with the Governor's policy directive to reduce the size of the state personnel force, the HWDC proposes to eliminate nine positions, for a savings of $139,000. The positions are as follows:

- Two clerical positions that are no longer needed due to efficiencies gained from office automation.
- Five professional positions that can be eliminated as a result of service level reductions.
- Two programmer positions that will be replaced by systems design and programming services secured from the private sector through a contract.

Our review indicates that HWDC should be able to accommodate the proposed personnel reductions related to office automation and service level reductions without adversely affecting the services provided to its clients. The proposal to contract out for systems design and programming responsibilities, however, *will result in increased costs to the state*—not savings. According to the center, contracting out workload equivalent to two positions is expected to cost $126,000 annually, while the cost of retaining the two existing programmer positions is $79,000, including staff benefits and associated operating expenses. Therefore, on balance, the administration's proposal would increase state costs by $47,000, or 60 percent.

The HWDC indicates that contracting for programmer services is desirable because it is difficult for the center itself to recruit and train qualified programmers. This, however, ignores the fact that the two programmer positions currently are filled. While the state may encounter difficulties at some point in recruiting programmers, the center has provided no evidence to indicate that qualified personnel *cannot* be found within state service, or that it will encounter recruitment problems in the budget year.

HEALTH AND WELFARE AGENCY DATA CENTER—Continued

In summary, our review indicates that the administration's proposal would result in additional state costs of $47,000 without producing any offsetting benefits. We therefore recommend that the Legislature reestablish two associate programmer analyst positions in the HWDC and reduce its appropriation by $47,000 to reflect the lower cost of retaining the existing personnel.

"Reduced Government" . . . But No Change in the Cost Of Government

We recommend that the Legislature reauthorize 8.9 personnel-years for HWDC temporary help in order to accurately reflect anticipated expenditures and workload.

The budget proposes to reduce the data center's temporary help authorization from 17.5 to 8.6 personnel-years. This is a reduction of 8.9 personnel years, or 51 percent, from the current-year authorization. *The budget does not, however, propose to reduce the level of expenditures budgeted for temporary help.*

The data center indicates that funding for temporary help cannot be reduced without adversely affecting services to its users. Our analysis bears this out. Consequently, we believe the funds budgeted for temporary help will be needed in 1985–86.

We discussed the administration's proposal with staff of the Department of Finance, the data center, and the State Controller's office, but could find no logical explanation for reducing position authorizations without also eliminating the funds associated with those positions.

The State Controller's office advises us that expenditures for temporary help are not controlled by the number of authorized personnel-years. Instead, the reverse is true: the number of personnel-years is determined by the State Controller based on the annual expenditures for temporary help incurred by a department. Thus, reducing the number of personnel-years in the budget will in no way limit the data center's ability to spend the funds budgeted for temporary help, nor will it reduce the number of persons actually hired or the number of personnel-years actually worked.

In essence, the reduction in personnel-years shown in the budget is bogus. The administration's proposal would result in an *ostensible* reduction in the number of state employees, but in reality it would not affect the level of expenditures or the number of persons employed by the HWDC. Thus, the proposal presents a totally misleading picture as to the number of personnel-years needed by the agency to accomplish its functions. On this basis, we recommend that the Legislature reject the proposal and restore the 8.9 personnel-years to the HWDC temporary help authorization, in order to accurately reflect anticipated expenditures and workload.

Health and Welfare Agency

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

Item 4140 from the General Fund and various other funds — Budget p. HW 8

Requested 1985–86	$10,947,000
Estimated 1984–85	12,891,000
Actual 1983–84	10,124,000
Requested decrease (excluding amount for salary increases) $1,944,000 (−15.1 percent)	
Total recommended reduction	None
Recommendation pending	2,141,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4140-001-001—Support	General	$950,000
4140-001-121—Support	Hospital Building Account, Architecture Public Building Fund	6,472,000
4140-001-518—Support	Health Facilities Construction Loan Insurance	645,000
4140-101-001—Local assistance	General	2,880,000
Subtotal		$10,947,000
4140-001-890—Support	Federal	(1,515,000)
Reimbursements		(5,148,000)
Total		($17,610,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Hospital Seismic Safety Reviews. Recommend that the office advise the fiscal committees during budget hearings how it intends to handle increased workload in the Seismic Safety program. 624
2. Health Facilities Data Collection. Withhold recommendation on $2,141,000 in reimbursements proposed for health facility data collection, pending receipt of the office's report to the Legislature. 626

GENERAL PROGRAM STATEMENT

The Office of Statewide Health Planning and Development administers four major programs:

1. The *Health Planning Division* works with the state's 12 health systems agencies to develop a State Health Plan. This plan establishes priorities for the financing and delivery of health services within California.

2. The *Certificate-of-Need Division* administers the state's certificate-of-need law (Ch 854/76), which requires state approval of major capital outlay projects proposed by health facilities.

3. The *Health Professions Development Division* administers the Song-Brown Family Physician Training program and the Health Professions Career Opportunity program.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

4. The *Facilities Development Division* conducts plan reviews for, and site inspections of, health facilities construction projects to assure that they conform with federal, state, and local building requirements, and reviews health facility applications for construction loan insurance.

The office has 180.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $3,830,000 from the General Fund to support the office in 1985–86. This is a decrease of $995,000, or 21 percent, below estimated current-year General Fund expenditures. This decrease, however, will be partially offset by the cost of any salary or benefit increases approved by the Legislature for the budget year.

This decrease is primarily caused by a $983,000 decrease in the carry-over appropriation for the Family Physician Training program. If this carry-over is deducted from current-year expenditures, the level of funding proposed represents a decrease of $12,000, or 0.2 percent below current-year expenditures.

Expenditures for support of the office from all funds are proposed at $17,610,000, which is a decrease of $133,000, or 0.8 percent, below estimated current-year expenditures. Table 1 displays the office's program expenditures and funding sources.

The decrease reflects the fact that certain one-time expenditures available in 1984–85 will not occur in the budget year. These are: (1) $983,000 of carry-over for the Family Physician Training program and (2) $1,081,000 reduction in one-time contracts with the Office of the State Architect. These reductions are offset in the budget year by a $2,141,000 increase due to the transfer of California Health Facilities Commission staff to the office. If these program changes are deducted from the current and budget year, the decrease to current ongoing programs is $210,000, or 1.3 percent, below estimated current-year expenditures.

Table 1
Office of Statewide Health Planning and Development
Expenditures and Funding Sources
1983–84 through 1985–86
(dollars in thousands)

	Actual 1983–84	*Estimated 1984–85*	*Proposed 1985–86*	*Change Amount*	*Change Percent*
Health planning	$2,115	$2,226	$2,226	—	—
Certificate of need	1,689	2,022	1,854	−$168	−8.3%
Health professions development	3,926	5,146	3,998	−1,148	−22.3
Facilities development and financing	6,821	8,066	7,117	−949	−11.8
Health facilities data	—	—	2,141	2,141	NA
Other	321	283	274	−9	−3.2
Totals	$14,872	$17,743	$17,610	−$133	−0.8%
General Fund	*$3,428*	*$4,825*	*$3,830*	*−$995*	*−20.6%*
Hospital Building Account, Architecture Public Building Fund	*6,201*	*7,380*	*6,472*	*−908*	*−12.3*
Health Facilities Construction Loan Insurance Fund	*495*	*686*	*645*	*−41*	*−6.0*
Federal funds	*1,808*	*1,664*	*1,515*	*−149*	*−9.0*
Health facilities assessment fees	*2,286*	*2,759*	*4,735*	*1,976*	*71.6*
Certificate-of-need application fees	*468*	*300*	*250*	*−50*	*−16.7*
Other reimbursements	*186*	*129*	*163*	*34*	*26.4*

Table 2 identifies the major budget changes proposed for 1985–86.

Table 2
Office of Statewide Health Planning and Development
Proposed 1985–86 Budget Changes
(dollars in thousands)

	General Fund	All Funds
1984–85 expenditures (Budget Act)	$3,780	$16,346
Baseline adjustments, 1984–1985		
1. Employee compensation increase	62	574
2. Carry-over appropriation for Family Physician Training program	983	983
3. Termination of National Health Service Corps grant	—	−155
4. Reduction of administrative services for other agencies	—	−5
1984–85 expenditures (revised)	$4,825	$17,743
Baseline adjustments:		
1. Employee compensation increase	$3	$32
2. Merit salary adjustment	—	34
3. Inflation adjustment for operating expenses and equipment	—	261
4. Pro-rata adjustment	—	−317
5. SWCAP adjustment	—	40
6. Administrative adjustment	−21	2
7. Reduction for one-time costs in seismic safety program	—	−1,081
8. Full-year cost of seismic safety positions	—	64
9. Carry-over appropriation for Family Physician Training program	−983	−983
10. Termination of National Health Service Corps grant	—	−58
Program change proposals:		
1. Certificate-of-need reductions	—	−121
2. Reduction of regulations staff	−3	−49
3. Reduction of health manpower planning staff	−39	−125
4. Augmentation for Health Professions Career Opportunity program	48	48
5. Redirection of administrative services for other agencies	—	−21
6. Transfer of California Health Facilities Commission staff, effective January 1, 1986	—	2,141
1985–86 expenditures (proposed)	$3,830	$17,610
Change from 1984–85 (revised):		
Amount	−$995	−$133
Percent	−20.6%	−0.8%

The budget proposes a total of 207 personnel-years for the office in 1985–86. This is an increase of 26.6 personnel-years from the current-year level. The primary reason for this increase is the transfer to the office of 80.7 positions and 37.1 personnel-years from the California Health Facilities Commission on January 1, 1986, pursuant to Ch 1326/84.

We recommend approval of the following significant funding and staffing changes proposed for 1985–86 that are not discussed elsewhere in this analysis:

- A reduction of 3 positions and $213,000 in federal funds reflecting the expiration of the office's contract with the federal government for administration of the National Health Service Corps.
- A reduction of 1.8 positions and $75,000 from various funds due to elimination of (1) a regulations coordinator and (2) administrative services provided to the Health and Welfare Agency and the Emergency Medical Services Authority.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

- A reduction of $125,000 ($39,000 General Fund and $86,000 federal funds) and 3 positions used to develop the office's biennial Health Manpower Plan. The office indicates that these positions are no longer needed to prepare the plan, due to the availability of more sophisticated data-gathering techniques.
- A reduction of 4 positions and redirection of the funds associated with these positions, together with an augmentation of $48,000 from the General Fund, for contracts with universities and health professions organizations to (1) conduct conferences and provide technical assistance to minority students interested in health professions and (2) expand services to allied health professionals. The proposal would implement a portion of SB 1707, which was passed by the Legislature but vetoed by the Governor.

ANALYSIS AND RECOMMENDATIONS

Phase-Out of Certificate-of-Need Division Due to Ch 1745/84 (SB 2061)

We recommend approval.

Chapter 1745, Statutes of 1984 (SB 2061), reduces the scope of the state's Certificate-of-Need (CON) program and suspends the program altogether on January 1, 1987.

Current law requires health facilities to obtain a certificate of need from the office prior to undertaking projects involving (1) construction of new health facilities or establishment of new services, (2) acquisition, by clinics, of diagnostic and therapeutic equipment valued in excess of $1 million, and (3) capital expenditures, by specialty clinics, valued in excess of $1 million. Chapter 1745 (1) eliminates certificate-of-need requirements for certain types of projects, (2) requires the office to grant a certificate of need to a facility that (a) serves a disproportionate number of patients who are publicly funded for whom the cost of care is uncompensated or (b) proposes to provide a service in a more innovative, competitive manner, or at a lower cost than the service is provided by other facilities in the area, and (3) changes procedures for processing certificate-of-need applications.

Budget Proposal. The budget proposes to eliminate 1.7 professional and 3.1 clerical positions, for a savings of $121,000 in reimbursements, to reflect the reduction in workload expected to result from Chapter 1745 in 1985–86. Our analysis of the office's workload indicates that the proposal is reasonable. Consequently, we recommend approval.

Hospital Seismic Safety Reviews

We recommend that the office advise the fiscal committees during budget hearings how it intends to handle workload in the seismic safety program that significantly exceeds the office's original workload estimates.

Chapter 303, Statutes of 1982, designated the office as the state agency responsible for enforcing hospital building standards. The measure preempted enforcement of hospital construction standards by local jurisdictions and required the state to assume all plan review, inspection, and administrative duties from these entities.

The Legislature approved 26 positions in 1983–84 and 16 limited-term positions in 1984–85 to cover workload attributable to Chapter 303. This increase was in addition to 20 positions that existed previously, for a total of 62 positions. The budget proposes to continue the same level of staffing for this program in 1985–86.

Current-Year Status. At the time this analysis was written, the office had filled 13 of the 16 new positions and made significant progress in reducing its plan review backlog and increasing the percent of scheduled site inspections it actually performed. For building permits issued in December 1984 the waiting period between submission of plans and completion of plan review was an average of seven to nine weeks, compared to 16 weeks for permits issued in February 1983. As Table 3 indicates, the percent of scheduled site reviews that the office was unable to complete has decreased from 70 percent in July to 30 percent in November.

Table 3
On-Site Project Reviews
July–November 1984

	Number of Site Visits Scheduled	*Total Performed*	*Missed Site Visits*	*Percent Missed*
July	768	288	540	70%
August	826	354	472	57
September	841	504	337	40
October	874	642	232	27
November	828	581	247	30
Totals	4,167	2,369	1,828	44%

Although the office's performance is improving, three factors lead us to conclude that current-year staffing probably is inadequate:

- The improvements are partially a result of suspending staff vacations, increasing overtime, and hiring retired employees on a temporary basis. The office cannot continue these policies indefinitely.
- In January 1985, the office projected that 1984–85 workload will be 34 percent greater than the level used as a basis for current staffing levels.
- Although waiting times for plan reviews have decreased on the average, the waiting time is still more than 10 months for very large projects, which require a large amount of staff time.

Budget-Year Staffing. The office's current estimate of 1985–86 workload is significantly higher than its previous estimate. Table 4 compares the workload projections issued in October 1983 to those issued in January 1985. The current estimate of 1985–86 workload is 37 percent higher than the previous estimate of 1985–86 workload. It is 45 percent higher than the previous estimate of current-year workload, which was the basis for current-year and proposed 1985–86 staffing levels.

Table 4
Estimated Value of
Seismic Safety Projects
(in thousands of dollars)

	Estimates		*Change*	
	October 1983	*January 1985*	*Amount*	*Percent*
1983–84	$456,000	$487,181 [a]	$31,181	7%
1984–85	484,000	650,500	166,500	34
1985–86	513,000	700,000	187,000	37

[a] Actual 1983–84 project values.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

The data in Table 4 indicate that the seismic safety program may be significantly understaffed in 1985–86.

Because delays in seismic and plan safety reviews increase capital outlay costs, and thus increase the cost of health care, we recommend that the office advise the fiscal committees during budget hearings how it plans to handle workload significantly exceeding its original workload estimates.

Health Facilities Data Collection

We withhold recommendation on the $2,141,000 proposed for health facility data collection, pending receipt of the office's April 1, 1985, report to the Legislature.

Chapter 1326, Statutes of 1984 (SB 181), transfers to the office the functions and staff of the California Health Facilities Commission (CHFC), effective January 1, 1986—the commission's sunset date. The CHFC collects specified health data from health facilities and summarizes the data in reports to government agencies and the public.

Specifically, Chapter 1326:

1. Designates the office as the state agency responsible for collecting data from health facilities for use by all state agencies and requires the office to collect specific reports currently gathered by the CHFC and the Medi-Cal program. Chapter 1326 requires the office to consolidate reports to the extent possible and makes other changes related to specific data items and published reports.
2. Creates the 13-member California Health Policy and Data Advisory Commission. The commission's primary responsibility is to advise the office regarding data collection.
3. Eliminates the Statewide Advisory Health Council, which approves the statewide health facilities and services plan.
4. Increases the fees that the office may assess health facilities.

The budget proposes to transfer 80.7 employees currently employed at the CHFC and increase one-time operating expenses by $389,000, for a total increase of $2,141,000 from reimbursements. This amounts to a reduction of 11.5 positions currently assigned to the CHFC. The positions proposed to be eliminated are primarily responsible for administration and policy analysis.

At the time this analysis was written, the office had not completed reviewing its space and staffing requirements under Chapter 1326. Consequently, we are unable to assess the office's budget proposal. Chapter 1326 requires the office to submit by April 1, 1985, a workload analysis and plan for implementing the act. Accordingly, we withhold recommendation on the $2,141,000 budgeted for the health facilities data transfer, pending receipt of the office's report.

Health and Welfare Agency

CALIFORNIA DEPARTMENT OF AGING

Item 4170 from the General Fund and Federal Trust Fund — Budget p. HW 15

Requested 1985–86	$33,268,000
Estimated 1984–85	22,806,000
Actual 1983–84	8,760,000
Requested increase (excluding amount for salary increases) $10,462,000 (+45.9 percent)	
Total recommended reduction	1,139,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4170-001-001—Support	General	$14,112,000
4170-001-890—Support	Federal	(2,183,000)
4170-101-001—Local assistance	General	19,156,000
4170-101-890—Local assistance	Federal	(74,299,000)
Total		$33,268,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Long-Term Care Division. Recommend that the Legislature adopt supplemental report language concerning the coordination of long-term care services. 637
2. Linkages Program. Recommend that, prior to budget hearings, the department provide the fiscal committees with a report on specified information regarding the Linkages program. 638
3. Alzheimer's Program. Recommend that, prior to budget hearings, the department provide the fiscal committees with a task and implementation plan for the Alzheimer's Day Care-Resource Center Pilot Project. 639
4. ***Management Information System. Reduce Item 4170-001-001 by $100,000.*** Recommend the deletion of $100,000 requested for consulting services budgeted within the Evaluation and Information Branch because the department is unable to advise the Legislature how these funds will be spent. Further recommend that, prior to budget hearings, the department provide the fiscal committees with specified information regarding the management information systems of its various long-term care programs. 639
5. ***Multipurpose Senior Services Program (MSSP). Reduce Item 4170-001-001 by $430,000 and Item 4170-001-890 by $864,000.*** Recommend a reduction of $860,000 requested for MSSP because the department lacks statutory authority to expand the number of MSSP sites. Further recommend that the Legislature reduce federal expenditure authority for the MSSP by $434,000 in order to more accurately reflect the amount of federal funds available for expenditure. 641

CALIFORNIA DEPARTMENT OF AGING—Continued

6. ***MSSP Case Management Funds. Reduce Item 4170-001-001 by $64,000.*** Recommend reduction to reflect availability of funds appropriated by Ch 1626/84 (AB 3900). 642
7. ***Federal Reimbursements. Reduce Item 4170-001-001 by $415,000.*** Recommend reduction in departmental support to reflect the availability of federal reimbursements. 643
8. Nutrition Program Priorities. Recommend that the Legislature adopt (1) Budget Bill language specifying nutrition fund expenditures and (2) supplemental report language requiring the department to submit a report on how General Fund monies for nutrition programs are being used to meet designated priorities. 643
9. Unspent Nutrition and Social Services Funds. Recommend that, prior to budget hearings, the department provide the fiscal committees with a plan for assuring that the Area Agencies on Aging (AAAs) maximize the use of their Federal Title III Funds. 646
10. Senior Center Bond Act. Recommend that, prior to budget hearings, the department advise the fiscal committees of its 1985–86 expenditure plans for funds to be raised under the Senior Center Bond Act. 647
11. Health Insurance Counseling and Advocacy Program. Recommend that, prior to budget hearings, the department provide the fiscal committees with specified information concerning implementation of the Health Insurance Counseling and Advocacy program. 648
12. Long-Term Care Ombudsman. Recommend that, prior to budget hearings, the department provide the fiscal committees with an implementation and expenditure plan, as specified, for Ch 1625/84 (AB 2257). 649
13. ***Department Relocation. Reduce Item 4170-001-001 by $69,000.*** Recommend deletion of funds requested to buy-out the department's existing lease because the department probably will not move by July 1, 1985. 650
14. ***Departmental Fiscal Analysts. Reduce Item 4170-001-001 by $61,000.*** Recommend reduction because the department is unable to advise the Legislature how these funds will be spent. Further recommend that the Legislature adopt supplemental report language making elimination of departmental fiscal staff contingent on submission of a specified report. 650
15. Advisory Council to the State Ombudsman. Recommend that, prior to budget hearings, the department advise the fiscal committees when the Ombudsman Advisory Council members will be appointed and when the first meeting will be held. 652

GENERAL PROGRAM STATEMENT

The California Department of Aging (CDA) is the single state agency charged to receive and administer funds allocated to California under the federal Older Americans Act (OAA). The department uses federal and state funds to support local social and nutrition services for the elderly, senior employment programs, and related state and local administrative services and staff training. In addition, the department supports programs which provide a range of long-term care services to the elderly and functionally impaired adults.

The OAA promotes the development of comprehensive service systems for older persons and functionally impaired adults. These systems are coordinated by a network that includes the federal Administration on Aging (AOA), state and local agencies on aging, other public and private nonprofit organizations, and service providers. At the center of the local network for delivery of services are planning and coordinating bodies called Area Agencies on Aging (AAA), often referred to as "triple As". In California, there are 33 AAAs; one in each planning and service area.

In the current year, CDA reorganized its operation into three divisions: (1) Administration and Finance, (2) Programs, including Nutrition and Social Services programs, and (3) Long-Term Care.

The 1984 Budget Act authorized 90.8 positions for the department. Largely as a result of subsequent legislation, the department will add a net of 26.2 positions in the current year and a net of 27.2 positions in the budget year. As a result, the department will have a staffing level of 117 positions in 1984–85, and 144.2 positions in 1985–86.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes $33,268,000 from the General Fund for support of the California Department of Aging's (CDA) activities in 1985–86. This is an increase of $10,462,000, or 46 percent, above estimated current-year expenditures, and almost a 300 percent increase above prior-year expenditures. This increase will grow by the amount of any salary or staff benefit increases approved for the budget year.

The budget proposal does not include any support for the estimated amount of merit salary increases ($16,000 in 1985–86) or inflation increases for operating expenses and equipment ($404,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Total program expenditures by the CDA are proposed at $120,106,000 in 1985–86. This is an increase of $17,030,000, or 17 percent, over estimated current-year expenditures. Table 1 presents a summary of the department's funding and expenditures for the prior, current, and budget years.

Table 1
California Department of Aging
Expenditures and Funding Sources
1983–84 through 1985–86
(dollars in thousands)

				Change from 1984–85 to 1985–86	
Expenditures	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*	*Amount*	*Percent*
State administration	$3,773	$4,624	$5,278	$654	14.1%
Older American's Act programs:					
Congregate Meals	36,340	43,178	43,178	—	—
Home-Delivered Meals	9,507	14,219	14,219	—	—
Employment Services	4,705	4,867	4,827	−40	−0.8
Social Services	24,233	25,037	25,425	388	1.6
Ombudsman	(54)	(744)	(1,132)	(388)	(52.2)
Special Projects	1,175	1,426	2,036	610	42.8
Totals	$75,960	$88,727	$89,685	$958	1.1%

CALIFORNIA DEPARTMENT OF AGING—Continued

Long-Term Care Programs:					
MSSP	—	$7,029	$19,826	$12,797	182.1%
Linkages/Alzheimer	—	1,675	3,742	2,067	123.4
OLTCA/ADHC	—	836	1,242	406	48.6
Evaluation and Information	—	185	232	47	25.4
Executive Office	—	—	101	101	—
Totals	—	$9,725	$25,143	$15,418	158.5%
Total Expenditures	$79,733	$103,076	$120,106	$17,030	16.5%
Unexpended balance (estimated savings) [a]	—	(2,330)	—	—	—
Balance available in subsequent year [b]	—	(2,136)	(1,631)	(−505)	(−23.6%)
Funding Sources					
General Fund	$8,760	$22,806	$33,268	$10,462	45.9%
Federal funds	71,707	76,616	76,482	−134	−0.2
Reimbursements	22	3,654	10,356	6,702	183.4
State Nutrition Fund	−756	—	—	—	—

[a] The unexpended balance includes funds appropriated by legislation in the current year for the MSSP, Linkages, and Alzheimer's programs.

[b] The balance available in subsequent years includes unexpended Title III funds and funds available without regard to fiscal year appropriated by Ch 1600/84, for Alzheimer's program and Adult Day Health Care.

Table 2
California Department of Aging Proposed 1985–86 Budget Changes (dollars in thousands)

	General Fund	*Federal Funds*	*Reim-bursements*	*Total*
1984–85 expenditures (revised)	$22,806	$76,616	$3,654	$103,076
Proposed changes:				
1. Cost adjustments:				
a. Increase in existing personnel costs	2	19	—	21
b. Inflation adjustments	—	17	—	17
2. Workload adjustments:				
a. One-time only expenditures	−5,071	−40	−16	−5,127
3. Program change proposals:				
a. MSSP transfer/expansion	6,278	—	6,519	12,797
b. Linkages/Alzheimer's programs	2,067	—	—	2,067
c. ADHC transfer and expansion	203	—	203	406
d. Long-Term Care Division staffing	186	—	−4	182
e. Department relocation	320	—	—	320
f. Health Insurance Counseling	425	—	—	425
g. Long-Term Care Ombudsman augmentation	461	—	—	461
h. Senior Center Bond Act administration	513	—	—	513
i. Home-delivered meals augmentation	5,000	—	—	5,000
j. Surplus commodities coordination	62	—	—	62
k. Training and Employment Grants	−32	−110	—	−142
l. Various administrative staff adjustments	48	−20	—	28
Total program change proposals	$15,531	−$130	$6,718	$22,119
1985–86 expenditures (proposed)	$33,268	$76,482	$10,356	$120,106
Change from 1984–85:				
Amount	$10,462	−$134	$6,702	$17,030
Percent	45.9%	−0.2%	183.4%	16.5%

Table 2 identifies, by funding source, the significant changes in expenditure levels proposed for 1985–86. Several of these proposed changes are discussed later in this analysis.

The fiscal impact of the program changes shown in Table 2 are understated to the extent that many of the department's new programs are beginning in the current year, thus masking the real level of program changes.

ANALYSIS AND RECOMMENDATIONS

On the following pages, we review the department's budget proposals for long-term care programs, nutrition programs, and other departmental programs. In a number of cases, we find that the department has not provided the Legislature with the information it needs in order to evaluate the department's proposals. This is particularly true with respect to long-term care programs which only recently were placed in the department. In most of these cases, we have recommended that the department provide the Legislature with additional information so that it can review the proposals in a meaningful way. In some instances, however, our review of the information provided by the department has led us to conclude that the proposed expenditures are not appropriate, either because (1) the department lacks the statutory authority needed to make the proposed expenditures, (2) the budget does not reflect the availability of other funds that can be used to accomplish the intended objective, or (3) the department has not provided adequate justification to support the need for the requested funds.

Proposed Changes that Warrant the Legislature's Approval

We recommend approval of the following program changes that are not discussed elsewhere in this analysis:

- An increase of $406,000 due to (1) the transfer of the Office of Long-Term Care and Aging (OLTCA) and Adult Day Health Care (ADHC) programs from the Department of Health Services to the Department of Aging and (2) the expansion of ADHC services.
- An increase of $182,000 due to the establishment of the Long-Term Care Division's executive staff and the addition of indirect support services provided by the department.
- A net decrease of $142,000 for Older American's Act training (Title IV) and employment (Title V) grants.
- An increase of $62,000 due to the establishment of a surplus commodities coordination position.
- A net increase of $28,000 due to various additions and deletions of administrative staff.

DIVISION OF LONG-TERM CARE PROGRAMS

On January 1, 1985, the department established its Long-Term Care Division. The division was established to reflect enactment of Chapter 1637, Statutes of 1984 (AB 2226), and Chapter 1600, Statutes of 1984 (SB 1337). This legislation designated CDA as the principal department responsible for developing, implementing, and integrating noninstitutional, long-term care services for older persons and functionally impaired adults living in California. The purpose of these services is to enable frail elderly and functionally impaired adults to stay in their own homes, instead of being placed in nursing homes.

Table 3
California Department of Aging
Long-Term Care Division Programs
Eligibility, Services, Centers, Clients, and Expenditures
1984–85 and 1985–86

Program	*Eligibility Requirements*	*Services Provided*	*Number of Centers Estimated*		*Number of Centers Estimated*		*Expenditures*	
			12/84	*6/86*	*12/84*	*6/86*	*1984–85*	*1985–86*
Multipurpose Senior Services Program (MSSP)	1. Medi-Cal eligible without share of cost 2. Certified or certifiable for SNF, ICF 3. 65 or over 4. Generally able to be served at a cost no greater than 95% of the cost of institutionalization	Case management and purchase of services	8	18–22	2,101	5,280	$14,294,000 [a]	$19,826,000
Community Care Facility Demonstration Project	Same as MSSP, but must qualify for placement in a board and care facility	Case management and purchase of personal care services only	—	2	—	120	Unknown	Unknown
Adult Day Health Care (ADHC)	1. 55 or over 2. Medical condition requiring treatment or rehabilitation prescribed by a doctor 3. Physical/mental impairments that handicap activities of daily living but don't require institutionalization 4. High potential for deterioration or institutionalization without ADHC	Health, social, therapeutic, nutritional, and transportation services in a day care setting	37	60	1,790	2,550	$775,000 [b]	$1,097,000

Linkages	1. 18 or over, excluding those eligible for programs provided under the jurisdiction of the state Department of Rehabilitation, Developmental Services, or Mental Health 2. At risk of institutionalization, but not "certified" or "certifiable" 3. Clinical judgement	Four levels of services: 1. Information 2. Securing services 3. Short-term counseling 4. Case management	—	10	—	2,000 at fourth level	$1,675,000	$3,742,000
Alzheimer's Day Care Resource Center Pilot Project	Alzheimer's disease patients and their families	1. Health, social, nutritional, therapeutical, and transportation services in a day care setting 2. Outreach, education, and support for families of patients	—	2	—	Unknown	Included in Linkages funds ($270,000)	($450,000)
Totals							$16,744,000	$24,665,000

[a] This amount represents full-year expenditures, approximately one-half of which are budgeted in the Department of Aging and one-half of which are budgeted in the Health and Welfare Agency.
[b] Nine-month expenditures.

CALIFORNIA DEPARTMENT OF AGING—Continued

The division currently is responsible for 45 local programs that provide a variety of long-term care services to approximately 3,900 clients. By the end of the budget year, the division estimates that it will be responsible for about 96 local programs and 10,000 clients. This represents a growth of 113 percent in local programs and 156 percent in clients.

Table 3 shows the programs in the division that provide long-term care services. These programs are briefly described below.

Multipurpose Senior Services Program

The Multipurpose Senior Services Program (MSSP) began as a demonstration project designed to develop information about effective methods to:

- Prevent the premature institutionalization of older persons.
- Assist older persons to live independently by assuring accessibility to social and health resources available in the community.
- Assure the most efficient and effective use of public funds to provide such services.

The MSSP has tested the effectiveness of the case management approach to delivering services to the elderly. Through the MSSP, case management is integrated into the community's network of existing programs serving older persons in each of the eight MSSP sites. Case managers operate in teams made up of health and social workers in order to assess and coordinate the provision of a range of services that enable the frail elderly to remain in their homes.

Chapter 306, Statutes of 1983, terminated the MSSP as a demonstration project and established it as an ongoing program as of July 1, 1983. Chapter 306 requires the program to target services to those elderly who are immediately "at-risk" of long-term institutionalization. This targeting strategy was adopted based on the finding that MSSP services are only cost-effective for the very frail elderly. As a result, clients selected for inclusion in the program must be certified or certifiable for placement in an intermediate care facility (ICF) or a skilled nursing facility (SNF). Prior to enactment of Chapter 306, the project included clients who were not "at-risk" of being institutionalized.

On January 1, 1984, there were 924 clients at the eight MSSP sites; as of January 1985, there were approximately 2,100 clients. The program is operating under a federal Medicaid waiver that expires June 30, 1986. The waiver permits a maximum caseload of 5,400 clients. In addition, Ch 1637/84 (AB 2226) permits MSSP to add to the original eight sites up to 10 new sites. These 10 new sites were selected in December 1984.

The 1985 Budget Bill proposes $27,888,000 for MSSP administrative support and local assistance, including purchase of services for MSSP clients.

Of these funds, \$20,797,000 is budgeted within the Department of Aging and the remaining \$7,091,000 is budgeted for purchasing services for MSSP clients within other state agencies.

Community Care Facility Demonstration Project (AB 3900)

Chapter 1626, Statutes of 1984 (AB 3900), established the Community Care Facility Demonstration (CCFD) Project. This project is to be administered as part of the MSSP. The CCFD project is identical to the MSSP, with the exception that CCFD clients (1) live in board and care facilities instead of their own homes and (2) receive only personal care services instead of other services, including in-home supportive services. The CCFD project will provide case management services to eligible seniors in board and care facilities. The CCFD project is authorized for three years. At the end of that period, the department is required to provide a report to the Legislature on the costs of the project and other specified information.

The department anticipates that it will release a request for proposal (RFP) for local site selection in February 1985, award contracts in May 1985, and begin to acquire clients in June 1985. The department will choose two of the existing eight MSSP sites for the demonstration project, with each site allowed to have a maximum of 60 clients.

Chapter 1626 appropriated \$595,000 for the term of the project. All of these funds, except those used for research, can be matched equally by Medicaid (Title XIX) funds. The department has not yet estimated the one-year General Fund cost of administering this program.

Adult Day Health Care Program

Chapter 1066, Statutes of 1977 (AB 1611), established the Adult Day Health Care program. This program was designed to address over-utilization of long-term institutional care in SNFs and ICFs by:

- Assuring that elderly persons are not institutionalized inappropriately or prematurely.
- Providing a viable alternative to institutionalization for those older impaired persons who are capable of living at home with the aid of appropriate health care or rehabilitative and social services.

As of January 1985, there were 37 centers in California serving 1,790 seniors. The department projects that the program will grow to 60 centers and 2,250 clients by June 1986.

Chapter 1600, Statutes of 1984 (SB 1337), provided \$1,000,000 to fund the expansion of the ADHC program. The 1985 Budget Bill provides \$1,097,000 for ADHC operations in 1985–86.

Linkages Program

Chapter 1637, Statutes of 1984 (AB 2226), established the Institutionalization Prevention Services, or "Linkages" program, as a part of the long-term care delivery system within the CDA. Like ADHC and MSSP, the intent of the program is to ensure that frail elderly and functionally impaired adults receive needed services that will enable them to remain in their own homes whenever possible, instead of being placed in SNFs and ICFs. In order to achieve this goal, each Linkages program will provide four different types of services:

- Information about the availability of services to the frail elderly and functionally impaired adults.

CALIFORNIA DEPARTMENT OF AGING—Continued

- One-time-only assistance in securing community services.
- Short-term assistance, including counseling and arrangement of an action plan when there is an immediate threat to a person's independent living arrangement.
- Continued assistance, or case management, to enable the frail elderly and functionally disabled adults to maintain their independent living situation or to delay institutionalization.

The department has established fairly broad eligibility requirements for participation in the Linkages program. These requirements allow participation by:

- Adults 18 or older, except those eligible for services from the Departments of Rehabilitation, Developmental Services, or Mental Health.
- Those frail elderly or functionally disabled adults who are at risk of institutionalization, *but not certified or certifiable for a SNF or ICF.* (This is one of the major differences in eligibility requirements between the MSSP and Linkages program.)
  Under this program, *clinical judgment* is used in determining eligibility—that is, two people with the same disability could receive different eligibility determinations.

Chapter 1637 provides for the establishment of no more than 10 Linkages sites, beginning in the current year. The department expects to release its RFP for site selection in late January 1985, and to have its contracts in place by mid-May 1985. The department anticipates that by June 30, 1986, each center will have 200 clients receiving case management services, for a total of 2,000 clients statewide. Chapter 1637 appropriated $3,475,000 to the Linkages program for the current year ($3.0 million for local assistance and $475,000 for state operations). Of the $3.0 million, the department plans to spend $1.2 million for local assistance in the current year, leaving $1.8 million unspent.

Alzheimer's Day Care-Resources Center Pilot Project

Chapter 1600, Statutes of 1984 (SB 1337), established the Alzheimer's Day Care-Resource Center Pilot Project. This act was designed to establish special programs for persons suffering from Alzheimer's disease and their families. The act also provides for the development of training programs for persons caring for victims of Alzheimer's disease, and for the establishment of an Alzheimer's Task Force. The purpose of the task force is to provide recommendations to the Legislature and the administration as to the needs of the Alzheimer's population, and to convene a statewide conference on Alzheimer's Disease. The project is authorized for three years, at the end of which time the department is required to submit a report to the Legislature on the project.

The department has not yet developed an implementation plan or client acquisition rates for this program; the department advises that development of the Alzheimer's program will begin after the Linkages program has been developed.

Chapter 1600 and the 1984 Budget Act appropriate a total of $450,000 annually to the department for three fiscal years, to be used as specified for grants, support of the Task Force, informational and educational materials, and the department's administrative expenses.

Long-Term Care Programs Require Coordination

We recommend that the Legislature adopt supplemental report language which requires the department to submit a report concerning the coordination of long-term care services.

All of the programs within the Long-Term Care Division have a common goal: to prevent, in a cost-effective manner, unnecessary institutionalization of frail elderly and functionally impaired adults. Because the Long-Term Care Division's programs are all either new or rapidly expanding, duplication and coordination problems among these programs could easily arise. Similarly there is a need for coordination among the Long-Term Care Division programs and other CDA programs, such as nutrition and social services. Finally, there is need for coordination between the long-term care services provided by CDA and similar services provided by other state departments.

Without effective coordination, the elderly and disabled adults will not receive the most appropriate care in the most cost-effective manner. The following illustrate the potential for coordination problems among the numerous programs serving these groups:

- *Coordination Problems Among Long-Term Care Programs and Other CDA Programs.* The CDA administers a number of non-long-term care programs that could provide services to long-term care clients. The largest of these services—nutrition and social services—are provided through Title III of the Older Americans Act. While Title III programs are administered through the AAAs, long-term care programs are administered at the state level. Because these programs are administered by different levels of government, it may be difficult to establish a coordinated continuum of care for the elderly and functionally impaired.
- *Coordination Problems Between the Long-Term Care Services Provided by CDA and Those Provided by Other State Departments.* The CDA is not the only department that provides long-term care services. For example, the Department of Social Services administers the In-Home Supportive Services (IHSS) program through local county welfare departments. The purpose of the IHSS Program is to provide specified services to disabled adults and the frail elderly in order to keep them in their homes, thereby avoiding institutionalization. It is unclear how the CDA intends to ensure that the delivery of IHSS will be coordinated with the delivery of other long-term care services provided by the department.
- *Differences in Eligibility Requirements.* Although all of the clients of the Long-Term Care Division will require some form of long-term care services, there are eligibility differences among the programs that may result in certain individuals not receiving needed services. For example, both the Linkages program and MSSP provide case management services to long-term care clients. The Linkages program provides such services to a less frail population than does MSSP. If a Linkages client's health deteriorates, that person should be moved into the MSSP program in order to continue getting case management services. However, because MSSP clients must be both over 65 and Medi-Cal-eligible, and Linkages clients need not be, a person who is either not over 65 or not eligible for Medi-Cal would "fall through the cracks" if the Linkages program were no longer appropriate.

CALIFORNIA DEPARTMENT OF AGING—Continued

The department's success in avoiding or ameliorating these coordination problems will have a major impact on the appropriateness, quality and cost-effectiveness of services delivered by the long-term care programs.

The department advises that it will conduct a crosscutting evaluation of all division programs *after* three years. Among the issues it proposes to investigate is the extent of coordination that exists among the long-term care programs.

We do not believe the Legislature can wait this long to assess the extent of any coordination problems. For this reason, we recommend that the Legislature adopt supplemental report language that would require the department to submit an annual report which evaluates the long-term care programs. The following language is consistent with our recommendation:

> "The Department of Aging shall prepare an annual report, beginning December 1, 1985, on the long-term care programs. This report should include (1) an assessment of the cost-effectiveness of the long-term care programs, (2) a discussion of how differences in eligibility for long-term care programs affect individuals' continuity of care, (3) a discussion of the ability to transfer clients among long-term care programs, and (4) an evaluation of the extent of coordination among the long-term care programs administered by CDA and other state departments."

Few Details on the Linkages Program

We recommend that, prior to budget hearings, the department provide the fiscal committees with a proposal for the Linkages program that specifies (1) client eligibility criteria, (2) site eligibility and selection criteria, including information on local match requirements, (3) plans for site training, (4) plans for contract monitoring, and (5) plans for coordinating this program with the Department of Health Services' Gatekeeper program.

Chapter 1637, Statutes of 1984 (AB 2226), established the Institutionalization Prevention Services, or "Linkages" program. The purpose of this program is to ensure that frail elderly and functionally impaired adults could receive services that will enable them to remain in their homes whenever possible, instead of being placed in nursing homes. Although the department has presented us with an overview of the Linkages program, at the time this analysis was prepared it had been unable to provide us with specific information regarding the program. For example, it has not been able to provide us with an implementation schedule, client eligibility criteria, and the criteria to be used for selecting Linkages sites. To a certain extent, this is understandable, since the department just recently acquired the program and is in the process of designing and implementing it. The department currently is holding meetings throughout the state in order to obtain comments from affected groups on the Linkages program. The department advises that as a result of these meetings, it may modify its preliminary implementation plan.

Nevertheless, without more information, the Legislature will not be able to determine if the department is proceeding to implement the Linkages program in accordance with legislative intent. For this reason, we recommend that, prior to budget hearings, the department provide the fiscal committees with a Linkages program proposal that contains the following information:

- ***Implementation Plan.*** The plan should identify the department's projected schedule for selecting sites and acquiring clients.
- ***Client Eligibility.*** The proposal should indicate how clients will be selected and the specific qualifications for eligibility. In addition, the proposal should indicate to what extent clinical judgment will be used in selecting participants. Finally, the proposal should indicate if Linkages sites will be required to target a certain percentage of their services to specific groups of individuals (for example, younger versus older clients, Medi-Cal-versus non-Medi-Cal-eligible clients).
- ***Criteria for Selecting Linkages Sites.*** The proposal should identify: the criteria which will be used to select Linkages sites; the process to be used for site selection; whether sites will be required to provide a cash or in-kind match; and how the department will assure that existing resources are coordinated within Linkages sites.
- ***Site staffing and Training.*** The proposal should identify the department's plan for training local programs prior to their taking on clients and the minimum staffing requirement for sites.
- ***Contract Monitoring.*** The proposal should identify how the department will monitor the number of clients served within the four levels of service, and whether financial expenditure reports will be required for each level of service.
- ***Coordination with Other Departments.*** The proposal should identify how the Linkages program will coordinate its services with the Gatekeeper program in the Department of Health Services.

Alzheimer's Program Remains a Mystery

We recommend that, prior to the budget hearings, the department provide the fiscal committees with a task and implementation plan for the Alzheimer's Day Care-Resource Center Pilot Project.

At the time we prepared this analysis, the department was unable to provide us with any information regarding the implementation of the Alzheimer's Day Care project. The department advises that it will begin planning this program after it completes planning for the Linkages program. As a result, we are unable to advise the Legislature as to (1) when the program will be implemented, (2) how sites will be selected, (3) the number of clients to be served, (4) client eligibility requirements, and (5) site staffing and training requirements.

In order to provide the Legislature with information it needs to assess the department's program, we recommend that, prior to budget hearings, the department provide the fiscal committees with a task and implementation plan for the Alzheimer's Day Care-Resource Center Pilot Project. The plan should (1) contain an implementation schedule, (2) specify eligibility criteria, (3) specify the site selection process, (4) specify the number of clients to be served, and (5) specify site staffing and training requirements.

Management Information Systems Require Better Planning

We recommend that, prior to budget hearings, the department provide the fiscal committees with specified information regarding the management information systems to be used for its various long-term care programs. We further recommend deletion of $100,000 requested from the General Fund for consulting services because the CDA has been unable to advise us how this money will be spent. (Reduce Item 4170-001-001 by $100,000.)

CALIFORNIA DEPARTMENT OF AGING—Continued

The Long-Term Care Division administers a number of programs that provide long-term care services to individuals. Within the division is the Evaluation and Information Branch, which is responsible for evaluating the effectiveness of the long-term care programs. In order to evaluate the programs, the branch must perform the following tasks:

- ***Definition.*** The branch must define the goals and objectives of each program so that measurable outcome criteria can be established. This task includes identifying types and sources of data, and developing forms for collecting such data.
- ***Training.*** The branch must assist local programs with data collection and quality control.
- ***Monitoring.*** The branch must review submitted data for accuracy and completeness.
- ***Evaluation.*** The branch must perform activities geared towards answering these questions: what works? for whom? at what costs? The branch will produce an annual evaluation report for each program as well as a three-year cross-cutting report, which compares the cost-effectiveness of the programs.

In order to collect the data necessary to perform these evaluations, the department proposes to develop management information systems for the MSSP, ADHC, CCFD, Linkages, and Alzheimer's programs. The management information systems for these programs currently are at various stages of development as discussed below:

- ***MSSP.*** There currently is a large amount of staff and resources devoted to evaluating this program. In part, this is because the MSSP began as a research demonstration project designed to determine whether some persons could be served less expensively in their homes than in an institution. In addition, the MSSP relies heavily on cost-effectiveness data to determine *in advance* of providing services whether it is more cost-effective to serve the person with MSSP services than in an institution. As a result, one research assistant within the program spends full-time on evaluation, and MSSP will spend $366,000 for an outside evaluation contract in the current year. At the time this analysis was prepared, the department had inititated a contract with an outside consultant to reevaluate its MIS needs for the MSSP. The evaluation will be completed by March 31, 1985, and will cost between $40,000 and $50,000.
- ***ADHC.*** Until recently, this program was not as evaluation-oriented as MSSP; it did not have an MIS and did not devote staff resources to evaluation. Currently, however, the department is developing a MIS that will produce descriptive and cost data on ADHC participants. The department estimates that it will cost $40,000 to $50,000 to develop this system. The department advises that once the system is operating, it will take two positions to process the data submitted by the local ADHC program sites. Additional staff will be required to analyze this data.
- ***Linkages, Alzheimer's, and CCFD.*** At the time we prepared this analysis, the department had not begun planning for management information systems for these programs.

Based on our review, we have the following concerns with the department's approach to developing management information systems for the programs within the Long-Term Care Division.

- ***No coordination between the development of MSSP and ADHC management information systems.*** In the current year, the MSSP and ADHC have spent a great deal of resources developing new management information systems. However, the department has not undertaken any planning activities to determine how these management information systems will interrelate or how one system could accommodate all the programs: MSSP, ADHC, CCFD, Linkages, and Alzheimer's. We believe such planning is important if the department is to avoid duplication of efforts and to ensure that the systems are compatible.
- ***Potential overlap among MSSP, ADHC, and Evaluation and Information Branch staff.*** Many of the branch's tasks—definition, training, monitoring, and evaluation—are already being performed by MSSP and ADHC staff for their separate programs. The department, however, has been unable to advise us how it will use current evaluation staff in MSSP and ADHC in conjunction with the new Evaluation and Information Branch staff.
- ***No plans for expenditure of contract evaluation funds.*** The budget proposes $100,000 from the General Fund so that the Evaluation and Information Branch can purchase consulting services. These funds are in addition to funds proposed for consultant services within the MSSP and other long-term care programs. The department has been unable to provide us with an expenditure plan that indicates how the $100,000 will be spent, or how this expenditure relates to other budgeted consultant expenditures within the Long-Term Care Division.

Given these concerns, we recommend that, prior to the budget hearings, the department provide the fiscal committees with the following:

1. Workload and task information for the staff of the Evaluation and Information Branch and the evaluation staff of the MSSP and ADHC programs.
2. A preliminary plan for developing an integrated management information system for the division's long-term care programs. This plan should include information regarding how current automation projects within MSSP and ADHC will take into account the division's common information needs.

We further recommend deletion of $100,000 budgeted for consultant services for the Evaluation and Information Branch because the department has been unable to advise us how these funds will be spent.

MSSP Funds Overbudgeted

We recommend a reduction of $860,000 proposed for the MSSP because the department does not have statutory authority for further site expansion. We further recommend a reduction of $434,000 in federal expenditure authority in order to reflect the amount of federal funds available. (Reduce Item 4170-001-001 by $430,000 and Item 4170-001-890 by $864,000.)

Site Expansion Lacks Statutory Authority. Under current state law, the department is authorized to establish up to 18 MSSP sites. At the time this analysis was prepared, the department had established 8 MSSP sites and anticipated that another 10 sites would be operational by June 30, 1985. The department advises that these 18 sites will serve 5,150 clients (of which 120 clients are for the CCFD) by June 30, 1986. The department also advises that it plans to add 4 new sites in 1985–86 to serve another 250

CALIFORNIA DEPARTMENT OF AGING—Continued

clients. The department estimates that these 4 new sites will be established in December 1985 and will take on clients starting February 1986. Establishment of 4 new sites would result in the department having a total of 22 MSSP sites.

Based on our review, we conclude that the department does not have the statutory authority to expand beyond its existing 18 sites. Specifically, Ch 1637/84 (AB 2226) permitted the department to expand its MSSP caseloads at its original 8 sites and to add *up to* 10 additional sites. Ten new sites were added in December 1984. Because the department does not have statutory authority to add 4 additional sites, we recommend that the budget for the MSSP be reduced by $860,000.

Reducing funds for the number of sites will not in any way affect the number of clients MSSP will serve, nor should it affect the quality of services participants will receive. This is because the $860,000 is for site administration, not services for clients. We believe that the MSSP can provide services in a more cost-effective manner by expanding those services in *existing* sites, rather than adding new sites.

Federal Funds Overbudgeted. During the current year, the department revised downward its estimates of caseload acquisition and the amount of funds that will be spent on services per MSSP client. These revisions were based on the program's prior-year experience. The budget for 1985–86, however, does not completely reflect the revised caseload and expenditure estimates. Specifically, the department's budget still has an extra $434,000 in federal funds expenditure authority, or "matching funds," carried over into the budget year. Without General Fund monies to match this level of expenditure authority, this amount cannot be spent. Therefore, we recommend that the federal funds expenditure authority for the MSSP be reduced by $434,000.

MSSP Case Management Funds Double-Budgeted

We recommend that the funds budgeted for the MSSP be reduced by $64,000 to reflect the amount of General Fund support available from Ch 1626/84 (AB 3900) for the budget year. (Reduce Item 4170-001-001 by $64,000.)

Chapter 1626 established the Community Care Facility Demonstration (CCFD) Project. The purpose of this project is to determine if it is cost-effective to provide case management services to an individual in a board and care home, instead of placing the individual in a nursing home. Chapter 1626 appropriates $595,000 over three years for this project.

Implementation of this demonstration project is dependent on the availability of federal funds and the approval of federal waivers. The department advises that federal funds are available for this project. In addition, the existing Title XIX waiver for the MSSP will cover the demonstration project, so long as the CCFD clients are included within the waiver's maximum caseload of 5,400 clients. The department advises that it plans to set aside 120 of the 5,400 client slots for the CCFD Project.

Our review indicates that the department has double-budgeted funds for the CCFD Project. This is because the budget contains adequate funds to support a caseload of 5,400 MSSP clients, which *includes* the 120 clients of the CCFD Project. Because funds are available for the CCFD project through Chapter 1626, we recommend that the amount proposed for the MSSP be reduced by $64,000.

Federal Reimbursements Understated

We recommend a reduction of $415,000 from the General Fund in order to reflect the availability of federal funds for departmental administration. (Reduce Item 4170-001-001 by $415,135.)

The federal government pays 50 percent of the costs associated with the positions that administer the MSSP and ADHC programs. The federal government will also pay for a portion of the costs of other positions within the department that provide supervision and services to the MSSP and ADHC programs. For example, the federal government will pay for a portion of the costs of the budget bureau because it provides budgeting services to the MSSP and ADHC programs. Although the federal government will pay for a portion of these "overhead" costs, the budget does not reflect the availability of these federal funds.

The department currently has an interagency agreement with the federal Department of Health and Human Services which allows for overhead cost reimbursements of 29 percent of the allowable direct services costs. Based on this formula, we estimate that the department can expect to receive federal funds of $111,000 for support of the overhead costs of the ADHC program and $304,000 for the overhead costs of the MSSP, for a total of $415,000 in additional federal reimbursements. Based on this estimate, we recommend that the department's General Fund appropriation be reduced by $415,000 to reflect the availability of federal reimbursements for departmental administration.

NUTRITION PROGRAMS

Nutrition Funds are Feeding Social Services

We recommend that the Legislature adopt (1) Budget Bill language specifying the expenditure of nutrition funds and (2) supplemental report language requiring the department to submit a report by December 1, 1985, on how General Fund support for nutrition programs is being used to meet designated priorities.

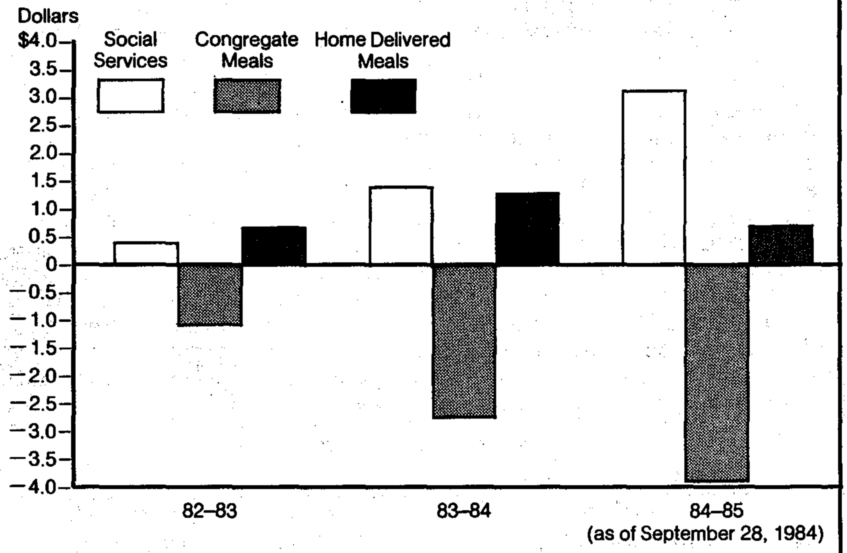
Each year, the state passes through to the AAAs federal Older Americans Act (OAA) funds. These funds are used to support social services (Title IIIB), congregate meals (Title IIIC1), and home-delivered meals (Title IIIC2). The OAA allows the state to transfer up to 27 percent of the federal funds among these programs. Individual AAAs wishing to make such transfers must secure approval from the department before doing so. These transfers may be proposed several times during the year as new federal funds are received or as AAA planning estimates change.

AAAs have increasingly taken advantage of their prerogative to transfer funds among programs. Chart 1 displays this trend. Transfers have grown from about $1.0 million, or less than 1 percent of the AAA's total allotment in 1982–83 to $3.9 million, or 7 percent of total funds in 1984–85. The final amount of the transfer in 1984–85 may exceed 7 percent; Chart 1 only reflects transfers through September 1984.

Not only has the amount of the transfers increased; the nature of the transfers has changed, as well. In 1982–83, AAAs shifted funds out of congregate meals equally into social services and home-delivered meals. In 1984–85, the AAAs are shifting funds out of congregate meals almost exclusively into social services.

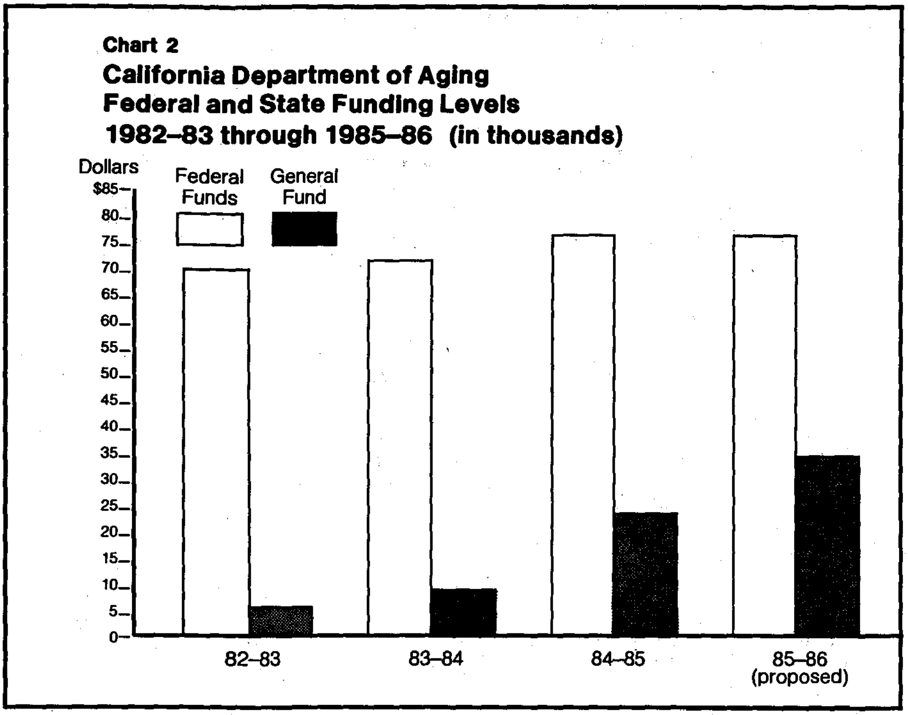
CALIFORNIA DEPARTMENT OF AGING—Continued

Chart I
Transfer of Title III Funds by Area Agencies on Aging (AAAs) 1982–83 through 1984–85 (in millions)



The AAAs cite a number of reasons for transferring funds from nutrition programs to social services programs. These reasons include (1) the need to provide transportation services so that individuals can get to nutrition sites, (2) the desirability of allowing AAAs to respond to a local determination that there is a greater need for social services than nutrition services, (3) the method used to allocate AAA administrative costs and (4) the shortage of other sources of income for social services. In regard to this last reason, it is true that nutrition programs can generate substantial matching income through U.S. Department of Agriculture reimbursements and participant contributions. Social services funds, however, do not generate such matching funds. As a result, AAAs might augment social services programs through transfers from nutrition programs, knowing that nutrition programs would be able to offset part of the transfer through other matching funds.

Over the last few years, the Legislature has increased substantially the General Fund support for CDA programs. Chart 2 shows the growth in General Fund support for CDA programs. Almost all of the General Fund increases have been for nutrition programs. In 1985–86, 36 percent of the proposed General Fund support is proposed for these programs. Because AAAs can transfer federal funds between nutrition and social services programs, however, legislative augmentations for nutrition programs may not accomplish the Legislature's intent in providing the augmentation. Instead, AAAs may simple use the new General Fund money in place of existing federal funds for nutrition programs, and transfer the funds freed up to social services programs.



The Legislature recently enacted Ch 616/84 (SB 1966) which provided additional funds for nutrition programs. Specifically, the act appropriated $5.0 million from the General Fund for 1984–85 to:

- Maintain the 1983–84 funding level of home-delivered meals;
- Reduce the number of seniors on waiting lists;
- Increase the number of days per week that meals are provided from five to seven;
- Provide modified diets to meet specific individuals' needs; and
- Establish outreach programs to ensure that the elderly are aware that home-delivered meals are available.

The department is aware of the danger that legislative augmentations to the nutrition program may end up being used to fund social services programs. The department indicates that it intends to closely monitor the impact of these transfers on the total funding level for nutrition programs. In order to help the Legislature do the same, we recommend the adoption of Budget Bill language specifying the expenditure of nutrition funds. The following Budget Bill language is consistent with this recommendation.

"Of the amount appropriated in this item, $5 million is provided to increase the level of home-delivered meal services."

We further recommend the adoption of supplemental report language requiring that the department submit a specific report to the Legislature which identifies how the AAAs are spending their General Fund nutrition

CALIFORNIA DEPARTMENT OF AGING—Continued

dollars. The following language is consistent with this recommendation:

"In order to assure that nutrition priorities are being met, the Director of the Department of Aging shall submit a report to the Legislature by December 1, 1985, on how the AAAs are spending General Fund nutrition dollars. The report shall discuss the extent to which AAAs are using General Fund monies to (1) maintain existing nutrition levels, (2) reduce waiting lists, (3) supply weekend meals, (4) supply modified diets, and (5) provide outreach to seniors needing home-delivered meals."

Action Needed to Assure that Title III Funds Are Fully Utilized

We recommend that, prior to budget hearings, the department provide the fiscal committees with a plan for assuring that the AAAs maximize the use of their Federal Title III Funds.

Currently, Federal Title III funds for nutrition and social services are distributed to each AAA according to an intrastate funding formula. In general, this formula is based on the number of persons over 60 and the number of persons over 60 receiving SSI/SSP in each AAA. The department believes that these factors are good indicators of need.

Despite the department's attempt to allocate funds based on need, virtually every AAA fails to spend some portion of its allocation by the end of the fiscal year. There are two measures of the extent to which AAA's are not spending all of their Title III funds: (1) the total amount unspent in each AAA, and (2) the percent of each AAA's total grant award unspent. Table 4 shows the spending shortfall for each AAA using each of these measurements.

Table 4
Area Agencies on Aging
Unexpended Federal Title III Grants
Percent of Grant Unexpended
1982–83 and 1983–84

	1982–83		*1983–84*	
AAA [a]	*Grant Amount Unexpended*	*Percent of Total Grant Amount Unexpended*	*Grant Amount Unexpended*	*Percent of Total Grant Amount Unexpended*
Humboldt	$1,653	—	$8,148	1
Lassen	56,865	4	18,130	1
Butte	14,040	1	46,831	4
Sacramento	56,193	2	23,167	1
Marin	14,087	3	11,094	2
San Francisco	138,947	6	5,222	—
Contra Costa	80,783	6	28,238	2
San Mateo	4,817	—	82,844	6
Alameda	119,159	5	21,337	1
Santa Clara	18,628	1	7,919	—
San Joaquin	11,743	1	2,594	—
Alpine	18,713	4	18,002	—
Santa Cruz	723	—	9,234	1
Fresno	7,391	—	6,099	—
Kings	1,059	—	59	—
Inyo	2,184	1	1,280	—
Santa Barbara	30,635	2	6,670	1

Ventura	17,383	2	9,605	1
Los Angeles County	206,452	2	230,121	3
San Bernardino	108,359	6	95,264	5
Riverside	108,391	6	192,417	10
Orange	30,941	1	24,966	1
San Diego	375,006	9	131,138	3
Imperial	61,045	14	86,379	19
Los Angeles City	360,639	5	883,726	11
Mendocino	57,119	10	8,801	1
Sonoma	27,224	3	9,370	1
Napa	2,513	—	20,667	3
El Dorado	995	—	820	—
Stanislaus	77,279	12	874	—
Merced	31,655	9	55,135	15
Monterey	31,181	5	40,018	6
Kern	13,189	1	47,970	5
Totals	$2,087,011	4%	$2,134,139	4%

[a] Only one county is mentioned if the AAA is a multi-county AAA.

The amount of unspent funds has remained relatively constant during the last two years. In 1982–83, the unspent Title III funds totaled $2.087 million. This amount increased slightly to $2.134 million in 1983–84. In 1982–83, 12 AAAs spent less than 95 percent of their total grant; in 1983–84, 8 spent less than 95 percent of their total grant.

Part of the reason Title III funds go unspent appears to be the way these funds have been *reallocated* among AAAs after these funds have been returned to the state by AAAs. Each year, funds are allocated through the funding formula. Unspent funds at the end of the year are *reallocated* among AAAs *using the same formula* that was used to allocate the funds initially. Thus, AAAs who are unable to spend their initial allocations receive part of these funds back through the reallocation process. This is a particular problem because those counties with the largest grant awards also have the hardest time spending them.

In light of the above, we recommend that, prior to budget hearings, the department provide the fiscal committees with the following: (1) an analysis of why AAAs have been unable to spend their Title III funds and (2) a plan for insuring that AAAs are able to spend these funds.

OTHER CDA PROGRAMS

Senior Center Bond Act

We recommend that, prior to budget hearings, the department advise the fiscal committees of its expenditure plans for the Senior Center Bond Act in 1985–86.

Chapter 575, Statutes of 1984 (SB 1359), established the Senior Center Bond Act, subject to voter approval. The act was approved by the electorate in November 1984. The act authorizes the state to sell $50 million in general obligation bonds to finance the acquisition, renovation, construction, or purchase of equipment for senior centers. It would also fund start-up costs of senior center programs. The department estimates that it will fund 200 to 300 separate projects with the $50 million.

In order to implement this program, the department must go through a number of steps. These steps are divided into two phases: (1) the grant development and selection phase and (2) the bond sale phase. In the initial phase, the department must: (1) develop, in conjunction with sev-

CALIFORNIA DEPARTMENT OF AGING—Continued

eral state agencies, criteria for selecting and funding proposals, (2) issue a request for proposals, (3) provide technical assistance to the AAAs as they review local proposals, (4) review and approve proposals submitted by AAAs, (5) and submit its recommended proposals to the Governor and the Legislature for approval. Once the Legislature has approved the department's proposals, it must then appropriate the bond funds. The department must then: (1) convene the Senior Center Finance Committee to coordinate the bond sale, (2) develop accounts and fiscal review systems for the bond funds, and (3) award the contracts and distribute the funds. The department advises that it will begin developing the funding and selection criteria in February 1985, and anticipates that the initial bond funds will be available for the local programs by May 1986.

The budget document indicates that $25 million will be spent for senior citizen centers in 1985–86, and another $25 million will be spent in 1986–87. The department, however, has not proposed an expenditure plan for this program in the budget year. In fact, the budget does not even propose an appropriation for this program in the Budget Bill.

In order to assure that the Legislature has an opportunity to review and approve the department's plans for using the Senior Center Bond Act funds, we recommend that, prior to budget hearings, the department advise the fiscal committees of its expenditure plans for these funds in 1985–86. The plan should identify the amount of funds that should be appropriated in the 1985 Budget Bill for this program.

Health Insurance Counseling and Advocacy Program Requires Clarification

We recommend that, prior to the budget hearings, the department provide the fiscal committees with specified information concerning implementation of the Health Insurance Counseling and Advocacy program.

Chapter 1464, Statutes of 1984 (AB 2419), establishes a statewide Health Insurance Counseling and Advocacy program. The purpose of this program is to provide Medicare beneficiaries with counseling, advocacy, and legal representation in Medicare, private health insurance, and related health care coverage plans. As part of the implementation of this program, the department is required to select local contractors through a Request for Proposal (RFP) process, provide contractors with minimum standards and materials for training volunteer counselors, and provide technical assistance to contractors. In addition, the department, in conjunction with the California Commission on Aging, is required to establish a committee that will act as a clearinghouse for information and materials related to Medicare and health insurance policies.

The department proposes $877,000 (including $45,000 for consultant services) and 1.5 positions to carry out the requirements of Chapter 1464. The department, however, has not provided us with sufficient information to assess its proposal or to determine if the level of staffing and the initial program implementation plan will carry out Chapter 1464's mandate in the most efficient and effective way. For example, the department has not provided us with:

- A timetable for implementation.
- A description of the responsibilities of the 1.5 positions.
- A plan for using the consultant staff.
- A plan for choosing members for the clearinghouse committee on health insurance policies.

- A plan and criteria for selecting local contractors.

In view of this lack of information, we recommend that, prior to the budget hearings, the department provide the fiscal committees with the specified information discussed above.

Long-Term Care Ombudsman Proposal Incomplete

We recommend that, prior to budget hearings, the department provide the fiscal committees with an implementation and expenditure plan for Ch 1625/84 (AB 2257), which should include, but not be limited to (1) workload data for the ombudsman program at the state level and (2) a plan for training the local State Long-Term Care Ombudsman (SLTCO) programs for their new responsibilities.

The SLTCO program began in 1975 as part of a federal effort to develop community action programs dedicated to identifying and dealing with the complaints of older persons or their relatives regarding the operation of nursing homes. Since 1975, both the program's funding and responsibilities have grown considerably. The original federal funding level in 1975, was approximately $55,000; in the budget year, funding for the ombudsman program is proposed at $2,434,000, of which one-half is federal funds and one-half is from the General Fund.

The state office, 35 sub-state offices, and over 700 largely volunteer ombudsmen currently are mandated to:

- Investigate and resolve complaints made by or on behalf of older individuals who are residents of long-term care facilities;
- Monitor the federal, state, and local laws, regulations, and policies regarding long-term care facilities;
- Provide public information, as appropriate, to public agencies concerning the problems of older individuals in long-term care facilities;
- Provide training for volunteers and promote the development of citizen's organizations to participate in the Ombudsman program; and
- Establish and maintain a statewide uniform reporting system to collect and analyze data related to complaints and conditions in long-term care facilities.

During 1984, several pieces of legislation were enacted that further expand the responsibilities and obligations of the SLTCO. One of them, Ch 1625/84 (AB 2257), increases the SLTCO's responsibilities in a number of ways. Specifically, Ch 1625:

- Provides for an expanded educational role for the SLTCO at the community level, including (a) developing and assisting residents', family, and friends' councils, (b) advising the public about inspection reports and facility deficiencies, (c) promoting family visitation programs, and (d) presenting community education and training programs about long-term care and residents' rights issues;
- Expands the SLTCO's role in long-term care facility citation review; and
- Allows the CDA to pursue civil penalties up to $1,000 for anyone interfering with the SLTCO's duties.

Although the department has budgeted $388,000 to implement the requirements of Chapter 1625, it has been unable to provide us with any information about how the requirements of the legislation will be implemented at the local level.

In order to allow the Legislature to evaluate the department's proposal,

CALIFORNIA DEPARTMENT OF AGING—Continued

we recommend that, prior to budget hearings, the department provide the fiscal committees with an implementation and expenditure plan for the $388,000 and any additional funds the SLTCO plans to use to implement the requirements of Chapter 1625. This implementation plan should include, workload data for the program at the state level and a plan for training local SLTCO program staff to carry out their responsibilities.

Departmental Relocation Funds Overbudgeted

We recommend a reduction of $69,000 budgeted for the department to buy-out its existing lease because the department will not be able to move by July 1, 1985. (Reduce Item 4170-001-001 by $69,000.)

In order to accommodate the substantial increase in the number of its employees during the budget year, the department proposes to relocate to a larger facility. This relocation will require moving the department, the MSSP, and the ADHC programs from their current separate locations into a common facility. The department estimates that it will move by July 1, 1985, and expects the costs of the new facilities and related moving expenses to be $320,000 more than its space costs in the current year.

We find that the department has budgeted too much money for the move. Specifically, the department's moving costs include $69,000 to buy-out the department's existing lease between July 1, 1985 (the anticipated moving date) and October 31, 1985, when the department's current lease expires. We believe these funds are overbudgeted for two reasons. First, the Department of General Services (DGS), which is responsible for relocation and space management, has advised us that it is highly unlikely that the CDA will be able to move by July 1, 1985. This is partially because at the time this analysis was prepared, the DGS had not located a new space for CDA. The DGS estimates that CDA will probably not be able to move until approximately October 1, 1985. Second, the department has been unable to demonstrate that there are significant benefits to the state to offset the substantial costs—$69,000—involved in moving four months before the department's lease expires.

For these reasons, we recommend a reduction of $69,000 in the amount of funds budgeted for the department's relocation.

Does the Department Need Fewer Fiscal Analysts and More Consultants?

We recommend that the Legislature adopt supplemental report language making elimination of departmental fiscal staff contingent on the submission of a specified report. We further recommend the deletion of $61,000 proposed for consultant services, because the department has been unable to document the need for these services. (Reduce Item 4170-001-001 by $61,000.)

The Financial Analysis and Evaluation Branch within the Department of Aging performs various management and oversight activities related to AAA grants and contracts. Specifically, the branch (1) reviews AAA's contract and grant budgets, (2) assesses and monitors the fiscal systems of local service providers for compliance with federal and state requirements, (3) provides technical assistance to AAA fiscal staff on contract-related matters, and (4) responds to fiscal inquiries from AAAs. This staff is also responsible for all accounting related to AAA contracts, such as processing advances, posting expenditures, and closing out expenditure reports. This accounting function currently is being done manually. The

Financial Analysis and Evaluation Branch carries out portions of these functions in conjunction with AAA staff and the department's accounting division.

The budget proposes to eliminate the Financial Analysis and Evaluation Branch by eliminating four staff, transferring the remaining four staff to the department's accounting division, and absorbing the current workload. The department advises that it is reducing its staff as a result of (1) efficiencies that can be achieved by eliminating overlapping responsibilities among fiscal, program and accounting staff and (2) further automation of the CALSTARS system which will eliminate the need to manually perform various fiscal oversight activities.

The CDA further proposes to hire consultants to provide advice and assistance to AAAs that have deficient fiscal systems. The amount budgeted for consultant services—$61,000—is equivalent to the reduction achieved by eliminating the four staff positions.

This proposal raises three separate issues. First, can the department adequately meet its financial reporting responsibilities with a smaller staff? Second, will efficiencies in the operation and automation of the department result in decreased workload equivalent to four staff? Third, has CDA demonstrated that it requires consultant services to provide assistance to the AAAs?

- ***Department's Financial Reporting Responsibilities.*** Because the department has had trouble meeting its financial reporting requirements in the past, we are dubious about the wisdom of deleting four fiscal analysts. In October 1982, the federal Administration on Aging suspended the department's Letter of Credit because of long-standing deficiencies in its fiscal and program reporting systems. Although the Letter of Credit was reinstated in April 1983, the department is still working to complete audits related to the suspension. Based on the department's previous problems in this area, we are concerned about the ramifications of eliminating four staff and its entire Financial Analysis and Evaluation Branch.
- ***Efficiencies in the Operation and Automation of the Department.*** At the time we prepared this analysis, the CDA had not been able to provide us with information which demonstrates that the department's planned efficiencies and automation will result in decreased workload. The department advises that it will complete a report by June 30, 1985 on the feasibility of having CALSTARS absorb workload currently performed manually. Because we recognize that efficiencies will be achieved through automation, but are not sure to what extent they can be achieved, we believe that the positions can be eliminated contingent upon the results of this preliminary study.
- ***Department's Proposed Consultant Services.*** The department has not provided satisfactory justification for its request for a $61,000 augmentation to fund consultant services. The department advises that consultant services *may* be necessary to provide technical assistance to AAAs that have deficient fiscal systems. The department, however, has been unable to identify which AAAs are having problems with their fiscal systems or the nature of these problems. In the absence of such information, we have no analytical basis upon which to recommend approval of the department's proposal for consultant services.

Given the uncertainty of the department's workload, we recommend that the Legislature adopt supplemental report language that requires the department to submit a report to the Legislature which demonstrates that

CALIFORNIA DEPARTMENT OF AGING—Continued

the department can absorb the workload of the fiscal positions by implementing CALSTARS. The following supplemental report language is consistent with this recommendation:

> "The department shall submit a report to the Legislature by July 1, 1985, that documents the feasibility of the CALSTARS accounting system absorbing workload currently performed manually by fiscal staff."

Furthermore, we recommend that $61,000 proposed for consultant services be deleted because the department has been unable to document the need for such funds.

LEGISLATIVE FOLLOW-UP

Advisory Council to the State Ombudsman

We recommend that, prior to budget hearings, the department advise the fiscal committees when the Ombudsman Advisory Council members will be appointed and when the first meeting of the council will be held.

Chapter 1456, Statutes of 1982 (AB 2997), requires the CDA to establish an 11-member advisory council in order to provide advice and recommendations to the Office of the State Long-Term Care Ombudsman regarding the delivery of ombudsman services. Chapter 1456 required that the first meeting of the council be held no later than April 1, 1983. The department, however, has not appointed any members to the council and no meetings have been held. The department has been unable to advise us when the council will be established.

In order to provide the Legislature with information concerning the department's plans for the council, we recommend that, prior to budget hearings, the CDA provide the fiscal committees with a time-frame for appointing members and holding its first meeting.

Departmental Reporting Requirements

The 1984 Budget Act and the *Supplemental Report of the 1984 Budget Act* required the department to submit three reports to the Legislature. Two of the three reports have been submitted; the reports are briefly described below.

- ***Intrastate Funding Formula.*** The 1984 Budget Act required the department to update its Intrastate Funding Formula (IFF) for the allocation of state and federal nutrition and social services funds in accordance with federal regulations. At the time we prepared this analysis, the department had not submitted the report.
- ***CDA Goals and Objectives.*** The *Supplemental Report of the 1984 Budget Act* required the department to submit a report to the Legislature that discusses how the department will meet the goals and objectives of the Older Americans Act and the Older Californians Act. The department has submitted the report to the Legislature. The report, however does not appear to meet the requirements outlined in the *Supplemental Report of the 1984 Budget Act.* Specifically, the report, in a number of cases, does not identify *quantifiable* goals and objectives. As a result, we do not believe the department will have a basis on which to prepare its follow-up report, due in March, which is intended to show the extent to which the department has met its goals and objectives.
- ***Nutrition Program Productivity.*** The *Supplemental Report of the 1984 Budget Act* required the department to submit a report to the

Legislature that identifies the steps the department is taking to improve the productivity of local senior nutrition programs. This report has been submitted and appears to meet the requirements of the supplemental report language.

Health and Welfare Agency
COMMISSION ON AGING

Item 4180 from the General Fund and various funds — Budget p. HW 24

Requested 1985–86	$577,000
Estimated 1984–85	385,000
Actual 1983–84	197,000
Requested increase (excluding amount for salary increases) $192,000 (+49.9 percent)	
Total recommended reduction	None

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4180-001-001—Support	General	$252,000
4180-001-890—Support	Federal	(193,000)
4180-001-983—Support	California Senior's	325,000
Total		$577,000

GENERAL PROGRAM STATEMENT

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

The CCA also sponsors the California Senior's Legislature (CSL). The CSL is composed of 120 seniors who hold an annual legislative session to develop legislation that addresses the needs and concerns of older Californians. The CSL in turn, seeks enactment of its legislative proposals through the state Legislature.

The 1984 Budget Act authorized 5.6 positions for the CCA in the current year. The CCA intends to add a new position for the CSL in the current year, which is proposed for continuation in the budget year. This will bring the total number of positions for the commission to 6.6 positions.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $252,000 from the General Fund to support the CCA in 1985–86. This is an increase of $67,000, or 36 percent, over estimated current year expenditures.

Total program expenditures are projected at $770,000 in the budget year. This amount includes $252,000 from the General Fund, $193,000 in federal funds, and $325,000 from the California Senior's Fund (CSF). The total is $198,000, or 35 percent larger than estimated current-year expenditures. Table 1 shows CCA funding for the prior, current, and budget years.

COMMISSION ON AGING—Continued

Table 1
Commission on Aging
Program Expenditures and Funding Sources
1983–84 through 1985–86
(dollars in Thousands)

				Change from 1984–85 to 1985–86	
Expenditures	*1983–84 Actual*	*1984–85 Estimated*	*1985–86 Proposed*	*Amount*	*Percent*
Commission	$327	$372	$404	$32	8.6%
Senior Legislature	37	200	366 [a]	166	83.0
Totals	$364	$572	$770	$198	34.6%
Revenues					
General Fund	$197	$185	$252	$67	36.2%
Federal funds	167	187	193	6	3.2
Senior's Fund	–	200	325	125	62.5

[a] $41,000 will be reverted to the General Fund if more than $83,000 is received for the CSF.

The size of the General Fund increase shown in the budget is somewhat misleading. This is because the 1985 Budget Bill contains language that would reduce the $41,000 requested for the CSL by an amount equal to one-half of any private contributions made to the Legislature in excess of $33,000. This language is identical to language contained in the 1984 Budget Act. As a result of this language, General Fund expenditures for the current year have already been reduced by $41,000 below what was appropriated. If $41,000 is reduced from General Fund expenditures in the budget year, as well, the General Fund increase will be $26,000, or about 14 percent. The budget proposal does not include any funds for the estimated amount of merit salary increases or inflation adjustments for operating expenses and equipment ($5,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Table 2
California Commission on Aging
Proposed Budget Changes
1985–86
(dollars in thousands)

	Total	*General Fund*	*Federal Funds*	*Senior's Fund*
1984–85 Expenditures (revised)	$572	$185	$187	$200
Proposed changes:				
1. Cost adjustments				
a. Increase in existing personnel costs	3	—	2	1
b. Operating expenses and equipment	—	—	—	—
2. Program change proposals				
a. Travel adjustment	26	26		
b. Program adjustments				
• Staff increase	20			20
• Increased OE&E for CCA	41 [a]	41 [a]		
• Increased OE&E for CSL	108		4	104
3. 1985–86 Expenditures (proposed)	$770	$252	$193	$325
Amount	198	67	6	125
Percent	34.6%	36.7%	3.2%	62.5%

[a] $41,000 will be reverted to the General Fund if more than $83,000 is received for the CSF.

Table 2 details the proposed changes in the commission's budget. These include the following:

- ***Increase in Operating Expenses.*** The budget proposes an increase of $108,000 in operating expenses for the senior legislature, due to (1) a projected rise in the amount available for support of the senior legislature in the CSF and (2) increased travel expenditures required by Ch 1600/84 (SB 1337).
- ***Increase in Personnel Costs.*** The budget proposes a $20,000 increase for staff and benefit costs. This amount would be used to support a new office assistant for the CSL.

Health and Welfare Agency

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

Item 4200 from the General Fund and Federal Trust Fund — Budget p. HW 26

Requested 1985–86	$77,781,000
Estimated 1984–85	75,959,000
Actual 1983–84	67,942,000
Requested increase (excluding amount for salary increases) $1,822,000 (+2.4 percent)	
Total recommended reduction	None

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4200-001-001—Support	General	$6,259,000
4200-001-890—Support	Federal	(2,824,000)
4200-101-001—Local assistance	General	71,522,000
4200-101-890—Local assistance	Federal	(28,367,000)
Total		$77,781,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Methadone Program Transfer. Recommend that, prior to budget hearings, the department provide the fiscal committees with specified workload data pertaining to the transfer, and a plan for training counties to monitor methadone programs using state regulations. 658
2. Drinking Driver Program Transfer. Recommend that, prior to budget hearings, the department provide the fiscal committees with specified workload data pertaining to the transfer. Further recommend that the Legislature adopt supplemental report language requiring the department to prepare a report on statewide drinking driver program costs, practices, and outcomes. 660
3. Alcoholism Recovery Home Licensing. Recommend that, prior to budget hearings, the department advise the 662

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

fiscal committees (a) if the State Personnel Board has approved the use of entry-level positions for the licensing function, and (b) how the department will fund any shortfall in the budget year.

GENERAL PROGRAM STATEMENT

The Department of Alcohol and Drug Programs (DADP) is responsible for directing and coordinating the state's efforts to prevent or minimize the effect of alcohol misuse, narcotic addiction, and drug abuse. The department is composed of the Divisions of Alcohol Programs, Drug Programs, and Administration.

The 1984 Budget Act authorized 197 positions for the department in the current year. During the current year, however, the department has administratively established an additional 10 positions (most of them for the purpose of licensing alcohol recovery homes) and abolished 14.6 positions (11.5 of them to reflect administrative efficiencies). Thus, in the current year, the department has a total of 192.4 positions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $77,781,000 from the General Fund for the DADP in 1985–86. This is an increase of $1,822,000, or 2.4 percent, over estimated current-year expenditures. The increase will grow by the cost of any salary or benefit increases that may be approved for the budget year.

The budget proposes total expenditures of $112,055,000 for alcohol and drug programs in 1985–86. This includes $77,781,000 from the General Fund, $31,191,000 from federal funds, and $3,083,000 from reimbursements. Total expenditures proposed for 1985–86 are $755,000, or 0.7 percent, above estimated total expenditures in the current year. Table 1 shows total expenditures for the prior, current, and budget years, by funding source.

Table 1
Department of Alcohol and Drug Programs
Expenditures by Funding Source
1983–84 through 1985–86
(dollars in thousands)

Expenditures	*1983–84 Actual*	*1984–85 Estimated*	*1985–86 Proposed*	*Change from 1984–85 to 1985–86 Amount*	*Percent*
Alcohol—local assistance	$42,061	$46,339	$47,233	$894	1.9%
Drugs—local assistance	50,751	54,479	55,406	927	1.7
Subtotals, local assistance	$92,812	$100,818	$102,639	$1,821	1.8%
State operations	$9,013	$10,482	$9,416	−$1,066	−10.2%
Totals	$101,825	$111,300	$112,055	$755	0.7%
Revenues					
General Fund	*$67,942*	*$75,959*	*$77,781*	*$1,822*	*2.4%*
Federal funds	*30,846*	*31,993*	*31,191*	*−802*	*−2.5*
Reimbursements	*3,037*	*3,348*	*3,083*	*−265*	*−7.9*

The budget proposal does not include any funds to cover the estimated cost of General Fund merit salary increases ($59,000 in 1985–86) or inflation adjustments for operating expenses and equipment ($106,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Table 2 shows, by funding source, the significant changes in expenditure levels proposed in the budget for 1985–86. Several of these proposed changes are discussed later in this analysis.

We recommend approval of the following program changes which are not discussed elsewhere:

- ***Cost-of-Living Adjustments (COLAs).*** The department proposes an increase of $2,560,000 from the General Fund to provide a 4 percent COLA for alcohol and drug programs.
- ***Adjustments for Limited-Term or One-Time-Only Funding.*** The department anticipates it will not receive $1,495,000 that was made available to it on a one-time basis in the current year. Fifty-five percent of these revenues are federal "Jobs Bill" funds.
- ***Executive, Administrative, and Temporary-Help Reductions.*** The department proposes to delete $122,000 in the budget year for its staff counsel, research, business services, and temporary-help positions.

Table 2
Department of Alcohol and Drug Programs
Proposed Budget Changes
1985–86
(dollars in thousands)

	General Fund	*Federal Funds*	*Reimbursements*	*Special Funds*	*Total*
1984–85 expenditures (revised)	$75,959	$31,993	$3,348	—	$111,300
Proposed changes:					
1. Cost adjustments					
a. Decrease in existing personnel costs	−27	15	1	—	−11
b. Inflation adjustments	2,560	40	6	—	2,606
c. Limited term/one-time-only funds	−500	−822	−173	—	−1,495
d. Change funding source	—	—	58	—	58
e. Transfer to Board of Control for court settlements	6	—	—	—	6
2. Workload adjustments—alcohol recovery home licensing	75	—	—	—	75
3. Program changes					
a. Drinking Driver program	—	—	—	−157	−157
b. Methadone Licensing program	—	—	—	−205	−205
c. Executive, Administration, and Temporary Help reductions	−87	−35	—	—	−122
d. Create methadone and DDP trust funds	−205	—	−157	362	—
1985–86 expenditures (proposed)	$77,781	$31,191	$3,083	—	$112,055
Change from 1984–85:					
Amount	$1,822	−$802	−$265	—	$755
Percent	2.4%	−2.5%	−7.9%	—	0.7%

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

ANALYSIS AND RECOMMENDATIONS

Partial Transfer of Methadone and Drinking Driver Programs

In the 1984 Budget Bill, the department proposed that the Methadone and Drinking Driver programs be transferred to the counties. The Legislature subsequently adopted legislation relating to the drug and alcohol programs, but chose not to transfer these programs as the administration had proposed.

The 1985 Budget Bill proposes a more limited transfer of functions under the Methadone and Drinking Driver programs to the counties. Under this proposal, the department would retain responsibility for licensing programs. It would also monitor local programs on a *sample* basis. The counties would be delegated responsibility for full program monitoring to ensure conformance with state regulations.

In the following two sections, we discuss the administration's current proposal as it relates to each of these two programs.

Methadone Program—More Information Needed

We recommend that, prior to the budget hearings, the department provide the fiscal committees with (1) information demonstrating that the staff of the methadone unit can absorb specified workload, (2) information demonstrating that staff in the county review unit can absorb the methadone review workload without cutting back their other activities, (3) a plan for training county staff to monitor methadone programs for compliance with state regulations, and (4) a projection of the fiscal effect that the proposed transfer would have on counties, program providers, and participants.

Methadone programs provide methadone to heroin addicts as a legal, but tightly controlled, substitute for heroin. There are two types of methadone programs: (1) Methadone Detoxification, which are 21-day treatment programs designed to reduce or eliminate the physical addiction to heroin and (2) Methadone Maintenance, which are long-term treatment and rehabilitation programs that provide addicts with regular doses of methadone in order to break the cycle of criminal activity and allow them to lead productive lives.

Currently, there are 69 methadone detoxification and 76 methadone maintenance programs in 21 counties. These programs serve from 60,000 to 65,000 heroin addicts, and are run by a variety of public, private, and private nonprofit providers. Because methadone is a narcotic substance, these programs are highly regulated and monitored by federal, state, and local agencies.

Currently, *counties* are responsible for recommending methadone programs—both private and public—for licensure. In addition, they monitor programs that receive public funds for compliance with county contracts, which often incorporate the requirements of both state and federal law. Counties do not monitor privately operated fee-for-service programs on an ongoing basis.

At the *state* level, both DADP and the Department of Health Services (DHS) monitor methadone programs. Chapter 1252, Statutes of 1977, requires DADP to license all methadone programs in the state and monitor the compliance of each with state regulations. All methadone programs, both private programs and those supported by public funds, are subject to monitoring by the state on an ongoing basis. Private for-profit methadone programs are charged an annual license fee by the department. In addition, providers who wish to receive Medi-Cal reimbursements must be certified by the DHS as Medi-Cal eligible. In addition, the DHS conducts annual utilization reviews of these providers.

Two *federal* agencies, the Drug Enforcement Administration and Food and Drug Administration, also monitor methadone programs for compliance with various provisions of federal law.

The department proposes to transfer to the counties some of its current responsibilities under the Methadone program. Table 3 summarizes the difference between current and proposed county and state responsibilities.

Table 3
Proposed Transfer of Methadone Program Responsibilities

Current State Responsibility	*Proposed Change*
License all methadone programs	Licensing will remain a state responsibility, but licenses will be granted only after counties have recommended programs for licensure based on their compliance with state regulations
Monitor methadone programs to ensure conformance with state regulations	Transfer to counties
Charge and collect licensure and monitoring fees sufficient to cover all administrative costs	Transfer to counties the authority to charge monitoring fees

The department proposes to reduce the methadone licensing staff from seven to two positions in order to reflect the division's reduced workload. These two positions would carry out the division's continuing responsibilities: maintaining state regulations and licensing program providers. The county review unit would perform county administrative reviews and sample reviews of program providers. Enactment of legislation is necessary in order to accomplish these changes.

Based on our review, we conclude that the department has not provided the Legislature with adequate information concerning the proposed transfer. First, the department has not been able to provide any data to substantiate its claim that the remaining state functions could be carried out by two staff positions. In the absence of adequate workload data, we are unable to determine if the remaining two positions could, indeed, absorb the remaining workload.

Second, the department has advised us that it will review 10 percent of the program providers through its county administration review process. The purpose of these reviews is to ensure that the counties are doing an adequate job of monitoring the performance of methadone providers. The department, however, has not provided a plan as to how this workload would be absorbed within the county review unit or how this new workload would affect the unit's current program reviews.

Third, the department has not indicated how it would train county staff to review programs or how counties would be prepared to interpret state methadone regulations. Because state regulations in this area are complex, we believe counties would require extensive training in order to carry out their new responsibilities under the program.

Finally, the department has not provided an estimate of the fiscal effect that the transfer would have on the counties, the program providers, or the participants.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

Without this information, we do not believe the Legislature can evaluate the department's proposal in a meaningful way. Accordingly, we recommend that, prior to budget hearings, the department provide the fiscal committees with (1) workload data for the two positions that it proposes to retain in the methadone unit, (2) workload data for existing staff in the county administration review unit, and a full explanation of how these new responsibilities would affect ongoing reviews of existing programs, (3) a plan for training county staff to monitor programs for conformity with state regulations, and (4) projections of the fiscal effects that the proposed transfer would have on counties, program providers, and participants.

Drinking Driver Program—More Information Needed

We recommend that, prior to the budget hearings, the department provide the fiscal committees with (1) a plan for absorbing the workload related to maintaining Drinking Driver program (DDP) regulations and performing DDP licensing activities, (2) workload data for existing program management staff and an explanation of how their new responsibilities under the DDP program would affect reviews of existing programs, (3) a plan for training county staff to monitor programs for compliance with state regulations, and (4) projections of how the proposed transfer would affect counties, program providers, and participants. We further recommend that the Legislature adopt supplemental report language requiring DADP to report by December 1, 1985, on how the transfer of the DDP review process to the counties has affected program costs, practices, and outcomes.

Drinking driver programs provide an alternative to driver's license suspensions for those persons convicted of driving while under the influence of alcohol for the second or subsequent time. When a court refers a multiple offender to a DDP, the enrollee agrees to participate in the program for at least one year as part of his or her probation. The court may refer convicted individuals only to programs approved by the DADP.

Currently, there are 113 approved multiple offender DDPs. These programs serve almost 27,000 participants in 45 counties. The DDPs are operated by 23 public and 90 private (for-profit and nonprofit) organizations that charge fees ranging from $450 to $850 per client. The fees generate from $12 to $15 million annually in revenues for local alcohol programs.

Currently, the state and counties share responsibility for reviewing and licensing DDPs. The counties review applications from providers to operate DDPs and make recommendations to DADP for approval or denial of the application. Based on county reviews and recommendations, the department issues a six-month provisional license. After six months, department staff conduct an on-site review of the provider to assess compliance with state DDP regulations. When appropriate, it then issues a one-year license. When the initial license expires, it can be renewed for two years.

The budget proposes to delegate authority for review of DDPs to the counties. Under this proposal, counties would be required to review DDPs for compliance with state regulations and make recommendations to the state for initial licensure and licensure renewal. The department would be responsible for maintaining DDP regulations and it would continue to license programs. It would retain a general oversight responsibility for the programs, which it would carry out by conducting sample reviews of DDP providers as part of its biennial county administration reviews. Enactment of legislation will be necessary in order to implement these changes. Table 4 summarizes the elements of the department's proposal and shows how the proposal differs from current practice.

Table 4

Proposed Transfer of Drinking Driver Program Responsibilities

Current State Responsibility	*Proposed Change*
License all drinking driver programs and review them on a biennial basis	Licensing will remain a state responsibility, but licenses will be granted only after counties have recommended programs for licensure, based on compliance with state regulations
Approve fee schedules for DDPs, and require that each program make provisions that enable indigents to participate	Transfer to counties
Charge and collect license and monitoring fees at a level sufficient to cover all administrative costs	Transfer to counties the authority to charge monitoring fees to cover administrative costs

Based on our review, we conclude that the department has not provided the Legislature with adequate information concerning the proposed transfer. First, although the department proposes to retain responsibility for maintaining DDP regulations, licensing DDPs, performing county administrative reviews, and reviewing a sample of providers for compliance with state regulations, it also proposes to eliminate the 3.5 positions currently in the Drinking Driver program unit. The department has not been able to demonstrate how the regulation maintenance and licensing functions would be absorbed within the department.

Second, the department proposes to review a sample of program providers in the course of conducting its county administrative reviews. The department, however, has not submitted a plan for carrying out this new responsibility within the program management section, nor has it provided information showing the impact of this new workload on the program management section's ability to perform its current workload.

Third, the department has not provided an estimate of how the proposed transfer would affect counties, program providers, and participants.

Finally, the department has not demonstrated how it will train county staff to monitor programs. Given the problems that the state has already encountered, we believe that adequate training for county staff would be essential if the counties are to perform their oversight role effectively. The department's experience in 1983–84 documents the importance of an effective training program. During its 1983–84 review of county administration, it identified 52 areas of noncompliance with the state regulations, a large percentage of which related to program monitoring. In addition, it identified 361 areas in which 63 service providers were out of compliance with applicable regulations. These areas included inadequate service provider staff qualifications, unsatisfactory maintenance of program and fiscal records, and failure to refer clients back to court for recommended termination. In fact, the number of areas found out of compliance has actually increased since 1981–82.

Without this information, we do not believe the Legislature can evaluate the department's proposal in a meaningful way. Accordingly, we rec-

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

ommend that, prior to budget hearings, the department provide the fiscal committees with (1) a description of how it plans to maintain DDP regulations and perform licensing activities, (2) workload data for existing program management staff, and a full explanation of how its new responsibilities for reviewing a sample of DDP providers will affect reviews of existing programs, (3) a plan for training county staff to monitor DDPs for compliance with state regulations, and (4) projections of the fiscal effect that the transfer would have on counties, program providers, and participants. We further recommend that the Legislature adopt supplemental report language requiring DADP to report by December 1, 1985, on statewide DDP costs, practices, and outcomes. This report should discuss how the transfer of the DDP to the counties has affected these costs, practices, and outcomes. The following language is consistent with our recommendation:

"The Department of Alcohol and Drug Programs shall submit a report to the Legislature by December 1, 1985, on the transfer of the multiple-offender drinking driver programs. This report shall include, but not be limited to (1) a review of how programs are run and how well they comply with state regulations, (2) a review of each program's costs, and (3) an analysis of the effectiveness of these programs, including, where possible, recidivism rates of persons enrolled in multiple-offender drinking driver programs and how these recidivism rates compare to those similar persons not enrolled in these programs."

Alcoholism Recovery Home Licensing May Be Underfunded

We recommend that, prior to the budget hearings, the DADP advise the Legislature as to whether the State Personnel Board has approved its proposal to use entry-level positions for licensing of Alcohol Recovery Homes. We further recommend that the department advise the fiscal committees how it plans to fund any budget-year shortfall related to licensing these facilities.

Chapter 1667, Statutes of 1984 (SB 2274), transferred responsibility for licensing alcoholism recovery facilities from the Department of Social Services (DSS) to the DADP, effective January 1, 1985. Chapter 1667 gives DADP various responsibilities regarding the licensing of these facilities, including the responsibility to promulgate regulations, charge license fees, and develop and certify advisory program standards.

Prior to the transfer, the DSS spent $143,000 annually for 5.5 positions to license alcoholism recovery facilities. An equivalent amount of staff and funds was transferred from DSS to the DADP in order to license these facilities during 1985–86.

The DADP advises, however, that it may not be able to fulfill the requirements of Chapter 1667 with the staff and funds transferred from DSS. Specifically, the department indicates that it may experience a shortfall of $64,973 in the current year and $120,859 in the budget year, due to the fact that the position classifications used by DADP to perform licensing functions are more costly than those used by DSS. In addition, the DADP indicates that its travel costs will exceed those incurred by the DSS because the DSS operated out of regional offices, while the DADP must operate out of its central office in Sacramento.

The department advises that it will utilize the authority granted by Section 28 of the 1984 Budget Act to supplement funding for the licensing activity in the current year. The department's budget change proposal indicates that in order to stay within the $143,000 expenditure level in the budget year, it will have to use entry-level positions, which may not be appropriate for this function. It is unclear as to whether the State Personnel Board will allow the DADP to use these position classifications to perform the licensing responsibilities.

Overall, it seems reasonable to expect the DADP to perform the licensing function at about what it cost the DSS to do so, except insofar as a difference in organizational structure or responsibility that results in higher or lower costs. It is not clear, however, that this expectation will be borne out in 1985–86. For this reason, we recommend that, prior to budget hearings, the DADP advise the fiscal committees as to whether the SPB has approved its proposal to use entry-level positions for the licensing function. We further recommend that the department advise the Legislature at that time how it plans to fund any budget-year shortfall that may materialize.

LEGISLATIVE FOLLOW-UP

Allocation Reports

The 1984 Budget Act required the DADP to report by December 1, 1984 on the allocation of funds to local drug programs and to local alcohol programs. These reports were to include proposed formulas and plans to achieve a more equitable allocation of alcohol and drug funds to counties. At the time this analysis was prepared, neither of these reports had been submitted to the Legislature. The department advises that the reports will be submitted by February 1, 1985.

Health and Welfare Agency

CHILD DEVELOPMENT PROGRAMS ADVISORY COMMITTEE

Item 4220 from the General Fund — Budget p. HW 32

Requested 1985–86	$163,000
Estimated 1984–85	145,000
Actual 1983–84	125,000
Requested increase (excluding amount for salary increases) $18,000 (+12.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Child Development Programs Advisory Committee is responsible for providing policy recommendations to the Governor, the Superintendent of Public Instruction, the Legislature, and other relevant state agencies concerning child care and development. The committee also reviews and evaluates the effectiveness of child development programs, along with the need for children's services.

The 25-member committee consists of representatives from various state agencies, public members (representing private education, health care, child welfare, child care, and community action interests), and parents of children served by child care programs. The committee is staffed

CHILD DEVELOPMENT PROGRAMS ADVISORY COMMITTEE—Continued

with an executive secretary, an analyst, and clerical support, for a total of 3.5 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes a General Fund appropriation of $163,000 for the support of the Child Development Programs Advisory Committee in 1985–86. This amount is $29,000, or 15.1 percent, less than current-year total expenditures. This decrease will be partially offset by the cost of any salary or staff benefit increase that may be approved by the Legislature for the budget year.

The proposed reduction in total expenditures by the committee reflects both (1) the completion of a federally-funded demonstration project and (2) new workload resulting from recent legislation reforming child care licensing. General Fund support for the committee, however, is proposed to increase by $18,000, or 12.4 percent above the current-year level, primarily to partially offset the reduction in federal funds.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

We have reviewed the proposed budget and believe it provides an appropriate level of support for the committee's activities. Accordingly, we recommend approval. Table 1 displays funding for the committee for the prior, current, and budget years.

Table 1

Child Development Programs Advisory Committee Funding
1983–84 through 1985–86
(dollars in thousands)

	Actual 1983–84	*Estimated 1984–85*	*Proposed 1985–86*	*Change Amount*	*Change Percent*
General Fund	$125	$145	$163	$18	12.4%
Federal funds	66	47	—	−47	−100.0
Totals	$191	$192	$163	−$29	−15.1%

Report on Child Care in Year-Round Schools

The Supplemental Report of the 1984 Budget Act directed the Child Development Programs Advisory Committee to study and make recommendations regarding the child care needs of children in year-round schools.

Legislation adopted in 1983 (Ch 498/83 and Ch 684/83) provides financial incentives for school districts to adopt year-round education programs as an alternative to construction of new facilities. With staggered attendance schedules, a portion of the students at a year-round school are on vacation at any one time during the calendar year, creating a year-round need for the types of child care services which traditionally have been provided only during the summer vacation months.

In response to the supplemental report language, the Advisory Committee completed a survey of school officials, parents, and child care providers in three school districts with high year-round enrollments. The committee found that year-round school schedules tend to create an unmet need for child care services because:

- Conflicts between high school and elementary school schedules reduce the number of older children available to supervise younger siblings or neighbors;
- Community parks and recreation programs, even in areas with many year-round schools, tend to schedule most activities to correspond with the traditional school calendar; and
- Few child care providers have changed their services in response to year-round school schedules because the fluctuating demand for care of students attending year-round schools creates additional administrative complexity for providers, making it difficult for them to maintain stable enrollments and revenues.

The committee noted that, in some cases, planning by local school districts has reduced these problems by facilitating coordination between schools and child care services. The committee recommends that, where the state has provided financial incentives to establish year-round schools, school districts should be required to demonstrate that such planning has occurred as a condition of receiving this funding.

Health and Welfare Agency
DEPARTMENT OF HEALTH SERVICES

Item 4260 from the General Fund and various other funds — Budget p. HW 34

Requested 1985–86	$3,395,254,000
Estimated 1984–85	3,144,232,000
Actual 1983–84	3,005,755,000
Requested increase (excluding amount for salary increases) $251,022,000 (+8.0 percent)	
Total recommended reduction	26,549,000
Recommendation pending	2,090,015,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4260-001-001—Department support	General	$106,288,000
4260-001-014—Department support	Hazardous Waste Control	16,082,000
4260-001-044—Department support	State Transportation	306,000
4260-001-203—Department support	Genetic Disease Testing	12,976,000
4260-001-335—Department support	Sanitarian Registration	86,000
4260-001-455—Department support	Hazardous Substance	10,189,000
4260-001-825—Department support	Hazardous Substance Clean-up	100,000,000
4260-001-900—Department support	County Health Services	166,000
4260-101-001—Medi-Cal local assistance	General	2,036,248,000
4260-105-001—Medi-Cal abortions	General	12,657,000
4260-106-001—Medi-Cal cost-of-living adjustments (COLAs)	General	56,012,000
4260-111-001—Preventive health local assistance	General	999,170,000
4260-116-001—Preventive health COLAs	General	45,074,000
Subtotal		$3,395,254,000
4260-001-890—Department support	Federal	($85,666,000)

DEPARTMENT OF HEALTH SERVICES—Continued

4260-005-890—Department support	Federal	(184,209,000)
4260-060-890—Department support	Federal	(21,800,000)
4260-101-001—Provision 1	County	(3,975,000)
4260-101-890—Medi-Cal local assistance	Federal	(2,152,797,000)
4260-105-890—Medi-Cal COLAs	Federal	(57,108,000)
4260-111-890—Preventive health local assistance	Federal	(32,114,000)
—Reimbursements		(63,935,000)
—Family repayments		(820,000)
Total		($5,997,678,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

Department Support 674

1. Budget Schedules. Recommend adoption of supplemental report language requiring the department to reformat its budget schedules for the 1986–87 budget document. 676
2. ***Technical Budgeting Issues. Reduce Item 4260-001-001 by $542,000, Item 4260-001-890 by $325,000, Item 4260-001-014 by $52,000, and Item 4260-001-455 by $16,000.*** Recommend reduction of $934,000 to correct for overbudgeting. 677
3. Special Projects Reimbursements. Recommend that $31,771,000 in special project reimbursements be separately identified in Item 4260-001-001. 677
4. Support Errors. Withhold recommendation on $10,141,000 ($4,517,000 General Fund) requested for ongoing support costs and salary adjustments until the department and the Department of Finance submit documentation correcting identified errors. 678

Licensing and Certification 678

5. Licensing Fee Proposal. Recommend that the Legislature adopt Budget Bill language specifically identifying proposed changes in health facility licensing fees. 679
6. Complainant Hearing Process. Withhold recommendation on 7.5 positions and $259,000 ($124,000 General Fund), pending receipt of additional workload information. 680
7. Management Information System. Withhold recommendation on $1,193,000 ($603,000 General Fund) requested for development of a management information system, pending receipt of a detailed implementation schedule and a spending plan for the funds. Recommend that during budget hearings, the department explain the reasons for delays in implementing the system and identify how it is spending funds appropriated in the current year for the system. 681
8. ***New Surveyor Positions. Reduce Item 4260-001-001 by $77,000 and Item 4260-001-890 by $84,000.*** Recommend reduction of 6.5 proposed new positions because they are not justified on a workload basis. Further recommend (1) redirection of $86,000 ($41,000 General Fund) to the department's contract with Los Angeles County, because a portion of the identified workload is in the county, and (2) that the department explain during budget hearings what it is doing to reduce high vacancy rates in the Licensing and Certification Division. 682

Preventive Health Services 685

9. *Cost-of-Living Adjustments. Reduce Item 4260-116-001 by $7,225,000.* Recommend reduction to reflect revised estimates of cost-of-living adjustments (COLAs.) 689
10. Response to Legislative Reporting Requirements. Recommend that prior to budget hearings, the Department of Health Services report to the Legislature explaining why 16 reports required by statute and the *Supplemental Reports of the 1983 and 1984 Budget Acts* are overdue. 692
11. Public Health Fee Adjustment. Recommend that the Legislature reduce the adjustment for public health fee rates proposed in the Budget Bill in order to more accurately reflect the change in program costs. 693
12. Public Health Fee Revenues. Recommend (1) enactment of legislation revising the current procedures for adjusting public health fees so that revenues equal program costs and (2) the adoption of Budget Bill language requiring the department to adjust fees set by regulation, during the budget year. 693
13. Family Health Initiative. Withhold recommendation on $1,645,000 ($1,002,000 General Fund) proposed for transfer to counties pending receipt of the proposed implementing legislation and additional information regarding the proposal. 699
14. *Adolescent Pregnancy. Reduce Item 4260-001-001 by $90,000, Item 4260-111-001 by $1,125,000, and Item 4260-111-890 by $90,000; and increase Item 4260-001-890 by $90,000.* Recommend deletion of General Fund support for adolescent pregnancy programs because the pilot projects do not yet warrant ongoing support. Further recommend that proposed positions be funded with federal funds. 703
15. CHDP Claims Processing Contract. Withhold recommendation on proposed contract, pending receipt of more specific information on the project's estimated costs. Recommend that the Department of Finance verify that the proposed contract conforms with provisions of Government Code Section 19130. 707
16. California Children's Services (CCS). Withhold recommendation on proposed budget, pending receipt of the revised estimates available in May. 708
17. Report on Hospital Contracting for California Children's Services. Recommend that prior to budget hearings, the California Medical Assistance Commission provide the fiscal committees with an estimate of the costs involved in revising current California Children's Services (CCS) data as necessary. 708
18. County Health Services Transfer Proposal. Withhold recommendation, pending receipt of the proposed implementing legislation and additional information regarding the proposal. 711
19. County Medical Services Program (CMSP) Shortfall. Withhold recommendation on the department's request for $3 million to augment the CMSP, pending receipt of 713

DEPARTMENT OF HEALTH SERVICES—Continued

May expenditure estimates and data on CMSP expenditures for inpatient services.

20. ***County Cash-Out. Reduce Item 4260-001-001 by $122,000 and increase Item 4260-111-001 by $122,000.*** Recommend that funds be transferred from the department's support budget to local assistance in order to correct a technical miscalculation. 718
21. ***Farmworker Health Insurance. Reduce Item 4260-111-001 by $2,052,000.*** Recommend deletion of funds proposed for the farmworker health insurance pilot project because the department does not have a plan for spending the funds. 718
22. ***Drinking Water Standards. Reduce Item 4260-001-001 by $1,008,000.*** Recommend reduction in amount requested for contracts because the department will not be able to productively spend the funds in the budget year. 721
23. Drinking Water Inspections. Recommend adoption of supplemental report language requiring the department to establish a system for tracking the effectiveness of large drinking water system inspections. 722
24. ***Toxic Air Contaminants. Reduce Item 4260-001-001 by $85,000.*** Recommend reduction because funding for this purpose is already available in the department's base budget. 723
25. Low-Level Radioactive Waste. Recommend that the department report prior to budget hearings on (1) the status of licensing a disposal site operator, (2) the status of a compact with Arizona, and (3) the options, cost, and need for an interim storage facility. 724
26. ***Alzheimer's Disease Program. Reduce Item 4260-001-001 by $939,000 and increase Item 4260-111-001 by $939,000.*** Recommend transfer of funds for grants from support to local assistance because these funds are appropriately budgeted as local assistance. 726

Toxic Substances Control 726

27. Hauler Fees. Recommend enactment of legislation to increase fees paid by haulers of hazardous waste. (Potential revenue increase: $160,000 to the Hazardous Waste Control Account.) 734
28. Process for Setting Cleanup Standards. Recommend that the department submit prior to budget hearings procedures for developing cleanup standards for contaminated sites. 738
29. Current-Year Superfund Changes. Recommend that the department submit detailed information on the source and use of $9 million from the Hazardous Substance Account proposed for early implementation of the bond act. 739
30. Current-Year Inappropriate Use of Funds. Recommend that the department identify (a) staff redirected to implement the Hazardous Substance Cleanup Bond Act in the current year and (b) how it intends to reimburse the funding sources that supported those positions. 740
31. Reappropriation. Recommend that the department (a) 741

explain why it has not corrected a $4.5 million error overstating the current-year reappropriation of federal funds for site mitigation and (b) notify the Legislature of federal funds that it expects to receive in the current year.

32. Toxic Funding Sources. Withhold recommendation on the Toxic Substances Control Division's budget until the department submits an analysis of the appropriate funding sources for existing and augmented activities. 741
33. Superfund Program. Withhold recommendation on $10,189,000 from the Hazardous Substance Account, $21.8 million in federal funds, and $10,850,000 from responsible parties until the department submits an expenditure plan. 742
34. Site Mitigation Staff. Withhold recommendation on 93.5 positions and $3,636,000 from the Hazardous Substance Cleanup Fund until the department completes its evaluation of appropriate funding sources for site mitigation. 743
35. Hazardous Materials Laboratory. Withhold recommendation on 16 positions and $3.2 million requested from the Hazardous Substance Cleanup Fund until the department submits an analysis of (a) anticipated workload, by program category, (b) alternative methods of obtaining services, (c) appropriate funding sources, and (d) the effect of equipment purchases on employee productivity. 744
36. ***Bond Repayment. Augment Item 4260-001-455 by $5 million.*** Recommend that the Legislature appropriate $5 million from the Hazardous Substance Account and other available non-General Fund sources to reduce General Fund debt service costs estimated at $7,250,000. Further recommend that the department and the Department of Finance identify during budget hearings the amounts available for this purpose. (Fiscal effect: reduces General Fund expenditures by a minimum of $5 million.) 745
37. Fencing Contaminated Sites. Withhold recommendation on two positions and $563,000 from the Hazardous Waste Control Account until the department submits an implementation schedule, needs assessment, and analysis of appropriate funding sources. 746
38. ***Site Ranking Regulations. Reduce Item 4260-001-014 by $83,000.*** Recommend reduction of two positions because other staff is available for this purpose. 747
39. Planning and Reporting. Recommend the enactment of legislation requiring the department to develop annual work plans for hazardous waste-related activities and submit periodic reports to the Legislature. 747
40. County Inspector Interns. Withhold recommendation on 20 contract positions and $841,000 from the Hazardous Waste Control Account until the department submits additional justification. 747
41. ***Waste Reduction. Reduce Item 4260-001-014 by $100,000.*** Recommend reduction in contract funds because adequate funds for this purpose are available in the department's base contract budget. 748
42. Financial Responsibility Contracting. Withhold recommendation on reduction of $35,000 and six positions until 749

DEPARTMENT OF HEALTH SERVICES—Continued

the department documents that the projected savings will occur and the quality of work will be maintained.

Medi-Cal Program 749

43. May Estimates. Withhold recommendation on $4.2 billion ($2.0 billion General Fund) requested for Medi-Cal local assistance, pending review of revised Medi-Cal estimates to be submitted in May. 754
44. Additional Revenue to the Medi-Cal Program. Recommend that the Department of Finance, as part of its May revision of expenditure estimates, identify (a) all unresolved federal funding disputes, (b) estimated recoveries of county administrative costs, and (c) estimated recoveries from fiscal intermediaries, so that the Legislature will have a better basis for determining funding requirements for the Medi-Cal program. 755
45. Limits to Statutory COLAs. Recommend deletion of proposed Budget Bill language that would limit statutory COLAs to those allowed by the federal government. 761
46. Limitation on Expenditures. Recommend that the Legislature adopt Budget Bill language (a) forbidding expenditures in excess of 3 percent of the amount appropriated in any expenditure category and (b) requiring legislative notification before augmentations to any service category are approved. 764
47. Notification of Rule Changes. Recommend the adoption of Budget Bill language requiring that the Legislature be notified of any rule change expected to cost $1 million or more. 765
48. ***Capitated Health Systems. Reduce Item 4260-001-001 by $47,000, Item 4260-001-890 by $47,000, Item 4260-101-001 by $4,025,000, and Item 4260-101-890 by $4,025,000.*** Recommend adoption of Budget Bill language directing the department (a) to revise the method for computing fee-for-service equivalent costs and (b) to set prepaid health plan rates for each eligibility category at a level that does not exceed estimated costs for that category. Further recommend the deletion of two positions proposed for development of capitated health systems. 767
49. ***Technical Budgeting Issues. Reduce Item 4260-101-101 by $1,615,000 and Item 4260-101-890 by $2,083,000.*** Recommend reductions to eliminate overbudgeting. 769
50. County Quality Control Sanctions. Recommend legislation to permanently establish the penalty assessment system proposed by the department as the basis for assessing Medi-Cal error rate penalties. 769
51. Cost-of-Living Adjustments. Recommend that the Legislature correct errors in Budget Bill language which specifies that the General Fund share of 1985–86 county administrative costs be based on the average salaries paid in 1984–85. 772
52. ***Change in Base Year. Reduce Item 4260-101-001 by $2,500,000.*** Recommend adoption of Budget Bill language to require that (a) 1980–81 be used as the base year for the 772

cost control plan governing expenditures for county eligibility determinations in 1985–86 and (b) 1984–85 be used as the base year for the 1986–87 cost control plan.

53. Notification of Change Orders. Recommend that the adoption of Budget Bill language requiring that the Legislature be notified of fiscal intermediary change orders. 775
54. California Dental Services Estimates. Recommend that the Department of Finance's May and December estimates of Medi-Cal expenditures include expanded documentation of the dental fiscal intermediary cost estimates. 776
55. Statewide Automated Welfare System. Withhold recommendation on $43,000 in Item 4260-001-001, $27,000 in Item 4260-001-890, and $16,000 in reimbursements, pending review of the required progress report. 778
56. Prepaid Health Plan (PHP) Rates. Recommend that during budget hearings, the department advise the Legislature of the steps it is taking to assure the timely submission of PHP rates. 778
57. ***Rate Development Contracts. Reduce Item 4260-001-001 by $26,000 and Item 4260-001-890 by $27,000.*** Recommend deletion of funds proposed for a rate development contract because the department currently is staffed to perform this function. 778
58. Medi-Cal Field Office Staffing Study. Recommend that the Department of Finance report at budget hearings whether or not it intends to propose staffing adjustments to reflect the results of the Medi-Cal field office workload study. 779
59. ***Field Office Telephone Lines. Reduce Item 4260-001-001 by $12,000 and Item 4260-001-890 by $12,000.*** Recommend a reduction to reflect updated estimates of the cost to purchase 24-hour telephone access lines for Medi-Cal field offices. 779
60. ***Treatment Authorization Requests. Augment Item 4260-001-001 by $135,000 and Item 4260-001-890 by $386,000.*** Recommend that (a) the minimum dollar limit for treatment authorization requests not be increased because it would increase state costs and (b) 12.5 personnel-years deleted in the budget due to the proposed increase in the limit be restored to handle the projected workload. (Net fiscal effect: $839,000 ($545,000 General Fund) savings). 779
61. Treatment Authorization Requests Automation. Withhold recommendation on the proposal to contract with Computer Sciences Corporation for automation of Medi-Cal field offices, pending receipt of project cost estimates. 780
62. ***Jackson v. Rank.*** Recommend adoption of Budget Bill language requiring that the Legislature be notified before the expenditure of funds for workload increases required to comply with court orders stemming from *Jackson v. Rank*. 781
63. ***Recovery Branch Contract. Reduce Item 4260-001-001 by $165,000 and increase Item 4260-001-890 by $5,000.*** Recommend that proposed deletion of 22 positions be disapproved because the reduction is premature. Recommend 782

DEPARTMENT OF HEALTH SERVICES—Continued

a reduction of 16.5 positions in the Workers' Compensation Section to reflect caseload decreases.

64. ***Fiscal Intermediary Administration. Reduce Item 4260-101-001 by $6,000 and Item 4260-101-890 by $17,000.*** Recommend (a) the adoption of supplemental report language requiring a review of fiscal intermediary management staffing and (b) a reduction of $23,000 to correct a technical budgeting error. 783
65. ***Medi-Cal Records Retention. Reduce Item 4260-101-001 by $50,000 and Item 4260-101-890 by $150,000 and augment Item 4260-001-001 by $94,000 and Item 4260-001-890 by $94,000.*** Recommend deletion of funds requested for CSC to maintain medical claims records and the addition of five positions to perform this function because the use of state staff for this purpose is more cost effective. (Net fiscal effect: savings of $12,000 ($6,000 General Fund).) 783
66. ***General Fund Reversion. Recommend reversion of $135,000 from the General Fund that was appropriated in Ch 1572/84 (AB 3889).*** These funds will not be needed to achieve the Legislature's objective. 784
67. ***Consultant Contracts. Reduce Item 4260-001-001 by $155,000 and Item 4260-001-890 by $155,000.*** Recommend reduction to delete contract funds that have not been justified. 784

Department of Health Services
Table of Contents

GENERAL PROGRAM STATEMENT

The Department of Health Services has responsibilities in two major areas. First, it provides access to health care for California's low-income population through the Medi-Cal program. Second, the department administers a broad range of public health programs, including (1) programs that complement and support the activities of local health agencies controlling environmental hazards, preventing and controlling disease, and providing health services to populations that have special needs and (2) state-operated programs such as those that license health facilities and certain types of technical personnel.

The department has 4,233.2 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $5,997,678,000 from all funds for support of Department of Health Services programs in 1985–86. This is an increase of $255,610,000, or 4.5 percent, above estimated current-year expenditures.

The budget proposes departmental expenditures of $3,255,449,000 from the General Fund in 1985–86, which is an increase of $186,891,000, or 6.1 percent, above estimated current-year expenditures. This increase will grow to the extent that any salary or staff benefit increases are approved for the budget year.

Table 1 shows the proposed budget, by program category, for 1985–86 and the two previous years.

Table 1
Department of Health Services
Expenditures and Funding Sources
1983–84 through 1985–86
(dollars in thousands)

	Actual 1983–84	*Estimated 1984–85*	*Proposed 1985–86*	*Change 1985–86 from 1984–85*	
				Amount	*Percent*
Department support	$200,745	$233,990	$247,172	$13,182	5.6%
Special projects	111,082	207,803	237,780	29,977	14.4
Hazardous Substance Account reappropriation	—	19,644	—	−19,644	−100.0
Toxic bond cleanup	—	—	93,158	93,158	NA
Preventive health local assistance	960,878	1,030,948	1,077,178	46,230	4.5
Medi-Cal local assistance	3,957,568	4,249,683	4,342,390	92,707	2.2
Totals	$5,230,273	$5,742,068	$5,997,678	$255,610	4.5%
Funding sources					
General Fund	*$2,977,927*	*$3,068,558*	*$3,255,449*	*$186,891*	*6.1%*
Federal funds	*2,182,367*	*2,525,827*	*2,537,669*	*11,842*	*.5*
Hazardous Substance Cleanup	—	—	*100,000*	*100,000*	*NA*
Hazardous Substance Account	*6,000*	*30,753*	*10,189*	*−20,564*	*−66.9*
Hazardous Waste Control Account	*6,561*	*11,588*	*16,082*	*4,494*	*38.8*
Genetic Disease Testing Fund	*9,930*	*12,971*	*12,976*	*5*	—
County Health Services Fund	*2,200*	*2,200*	—	*−2,200*	*−100.0*
Local Health Capital Expenditure Account	*197*	*18,162*	*166*	*−17,996*	*−99.1*
Reimbursements	*43,856*	*70,802*	*63,935*	*−6,867*	*−9.7*
Other funds	*1,235*	*1,207*	*1,212*	*5*	—

The largest budget change results from a proposal to appropriate $100 million in proceeds from the Hazardous Substance Cleanup Bond Act and add 109.5 positions for cleanups of hazardous waste sites.

DEPARTMENT OF HEALTH SERVICES—Continued

ANALYSIS AND RECOMMENDATIONS

1. DEPARTMENT SUPPORT

Department support is proposed at $247,172,000 (all funds) in 1985–86 and accounts for 4.1 percent of the department's budget. The department proposes to support 4,020.4 positions in the budget year (excluding those assigned to special projects), a decrease of 212.8, or 5 percent, below the number of positions in the current year. Table 2 shows the positions and expenditures proposed for department support, by major program category. The largest increase in expenditures and positions is requested for toxic substances control activities.

Table 2
Department of Health Services
Department Support
Positions and Expenditures—All Funds
1983–84 through 1985–86
(dollars in thousands)

	Actual 1983–84	Estimated 1984–85	Proposed 1985–86	Change 1985–86 from 1984–85 Amount	Change 1985–86 from 1984–85 Percent
Positions					
Preventive health	1,188.2	1,314.8	1,171.3	−143.5	−10.9%
Toxic substances control	148.1	274.0	327.0	53.0	19.3
Medical assistance	932.8	1,015.2	957.7	−57.5	−5.7
Licensing and certification	199.9	246.3	266.0	19.7	8.0
Audits and investigations	413.9	472.5	450.9	−21.6	−4.6
Administration and Director's office	859.1	910.4	847.5	−62.9	−6.9
Totals	3,742.0	4,233.2 [a]	4,020.4 [a]	−212.8	−5.0%
Expenditures					
Preventive health	$60,093	$72,728	$78,980	$6,252	8.6%
Toxic substances control	11,931	20,435	26,828	6,393	31.3
Medical assistance	50,205	53,233	54,796	1,563	2.9
Licensing and certification	12,460	17,197	18,506	1,309	7.6
Audits and investigations	17,156	19,679	19,252	−427	−2.2
Administration and Director's office	48,900	50,718	51,294	576	1.1
Subtotals	$200,745	$233,990	$249,656	$15,666	6.7%
Undistributed reduction	—	—	−2,484	−2,484	—
Totals	$200,745	$233,990	$247,172	$13,182	5.6%

[a] Excludes partial-year adjustments shown in the budget.

The budget proposal does not include any funds for the estimated amount of General Fund merit salary increases ($927,000 in 1985–86) or inflation adjustments for operating expenses and equipment ($1,557,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes. Nor does the budget reflect the creation of a new Department of Waste Management that the Governor proposed in his state-of-the-state address. Table 3 illustrates the main components of the increase proposed in the department's support budget, excluding special projects.

Table 3
Department of Health Services
Department Support
Proposed Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1984–85 expenditures (Budget Act)	$96,880	$220,204
Baseline adjustments:		
1. Increase in existing personnel costs		
a. Salary increase including merit salary adjustments	5,067	11,375
b. Fringe benefits	1,395	3,884
2. Increase in operating expense and equipment		
a. Inflation adjustment	1,557	3,516
b. Collective bargaining	10	22
3. One-time adjustments		
a. Infant botulism project	449	449
b. Contract reimbursements	—	114
c. Duplicate entries in 1984-85 change book	–581	–893
d. Licensing and certification Title XVIII costs	—	–278
e. Position reduction in Office of County Health Services	—	–51
f. One-time equipment purchases	–300	–895
g. Limited-term positions	–832	–1,828
h. Federal funds from other departments	—	57
i. Communication augmentation	538	931
j. Overhead funding adjustment	–439	—
k. Federal funding shift in Medi-Cal and licensing and certification	–1,453	—
l. Salary savings increase	–131	–418
m. Department of Justice direct funding	—	–230
Budget change proposals		
1. Administration	–139	–1,404
2. Audits and investigations	–563	–972
3. Licensing and certification	408	902
4. Preventive health services	5,883	6,830
5. Medi-Cal	533	1,400
6. Toxic substances control	—	6,939
Other adjustments		
1. Merit salary adjustment reductions	–927	–927
2. Operating expense and equipment reductions	–1,557	–1,557
3. County Medical Services program transfer from local assistance	947	—
4. Environmental toxicology funding shift	–615	—
5. Miscellaneous adjustments	157	1
1985–86 expenditures (proposed)	$106,287	$247,172
Change from 1984–85:		
Amount	$9,407	$26,968
Percent	9.7%	12.2%

Note: Details may not add to total due to rounding.

Table 4 shows the position changes proposed in the budget. Of the 227 *new* positions proposed for 1985–86, nearly 60 percent are proposed for various toxic substances control activities. Of the 375.3 positions proposed for *reduction* (1) 49 percent take account of identified workload decreases and administrative efficiencies, (2) 28 percent reflect the reduced administrative requirements that would result from the two block grant proposals—the County Health Services Transfer and the Family Health Initiative, (3) 21 percent are due to contracting proposals, and (4) 2 percent are due to automation.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 4
Department of Health Services
Proposed Position Augmentations and Reductions [a]
1985–86

	Position Augmentations	*Position Reductions: Efficiencies and Workload*	*Automation Proposals*	*Contract Proposals*	*Block Grant Proposals*	*Totals Reductions*
Executive and administration	21.5	−80.1[b]	−2.0	−6.0	−4.7	−92.8
Audits and investigations	—	−8.0	−4.0	—	—	−12.0
Licensing and certification	25.0	−4.0	—	—	—	−4.0
Toxic substances control	89.0	—	—	−6.0	—	−6.0
Preventive health services	61.5	−71.0	—	−30.0	−99.5	−200.5
Medi-Cal	30.0	−23.0	—	−37.0[c]	—	−60.0
Totals	227.0	−186.1	−6.0	−79.0	−104.2	−375.3

[a] Changes shown in this table do not correspond to changes shown in Table 2 because the latter includes changes due to mid-year adjustments and expiration of limited-term positions.
[b] Includes all reductions in the department's temporary help (29.1 positions) and administrative assistants (13 positions).
[c] This includes a reduction of 15 positions due to automation in Medi-Cal field offices that is proposed for contract with Computer Sciences Corporation.

The department's support budget incorporates the following additional major changes:

- An increase of $1.3 million to implement the drug utilization review pilots and evaluation authorized in Ch 1622/84 (AB 2655) and Ch 1636/84 (AB 3888).
- A decrease of $1.5 million in the General Fund cost of licensing long-term care facilities due to an increase in the share of federal funds supporting these activities.
- A General Fund increase of $6.4 million for various drinking water programs.
- An increase of $6.8 million to implement the Hazardous Substance Cleanup Bond Act.

Improvement Needed in Budget Schedules

We recommend that the Legislature adopt supplemental report language requiring the department, under the direction of the Department of Finance, to reformat the schedules in the 1986–87 budget document.

The budget schedules for the Department of Health Services are unnecessarily confusing and complex. For example:

1. The schedules do not display the support expenditures of individual programs.

2. Local assistance expenditures are difficult to derive for most programs and impossible to derive for some. The detailed tables in the program descriptions do not tie to the budget schedules, in part because program definitions vary and in part because the numbers are in error.

3. Reimbursements are not always identified in the budget schedules. This year, the reimbursements shown in the first table in the budget could not be derived from the detailed schedules.

Because of these deficiencies, it took numerous phone calls to the department's budget office in order to secure the budget and program information needed for this analysis. In some cases, it took a period of several days to resolve the discrepancies we identified because the information needed was not readily accessible.

To make the budget more easily understandable to the Legislature, which must review and approve it, we recommend that the Legislature adopt supplemental report language requiring the department to reformat the budget schedules under the direction of the Department of Finance, so that program detail is readily accessible to the members. We recommend that the two departments adopt the format of the Department of Social Services' budget, which has a summary of program expenditures by fund, for both local assistance and support.

Supplemental report language consistent with this recommendation is as follows:

> "The department, under the direction of the Department of Finance, shall reformat the schedules in the 1986–87 Governor's Budget. Specifically, the department shall (1) add schedules of program requirements by fund for local assistance and support, (2) identify all reimbursements by program in the summary by object, and (3) identify any savings by program in the reconciliation with appropriations. The program requirements by fund schedule for preventive health local assistance shall contain the level of detail found in the table on page HW47 of the 1985–86 budget, with similar subtotals and totals. The program requirements by fund schedules for Medi-Cal local assistance shall contain detail for health benefits, county administration, and fiscal intermediary, by item."

Technical Budget Issues

We recommend the reduction of $934,000 ($542,000 General Fund) from the amount requested for department support in order to correct for overbudgeting.

Our analysis of the department's support budget has identified the following cases of overbudgeting:

- The communications line item was increased by an arbitrary amount above the amount allowed by the price letter and no justification was provided for this increase. Therefore, $931,000 should be deleted ($539,000 General Fund, $325,000 federal funds, and $67,000 various special funds).
- Payments to the Building Standards Commission are overstated because of an error in the commission's charge for 1985–86. Therefore $3,000 should be deleted from the General Fund request.

Reimbursements for Special Projects

We recommend that the $31,771,000 expected as reimbursements for the cost of special projects be separately identified in Item 4260-001-001.

The department's budget includes $31,771,000 in reimbursements that the department expects to receive for various special projects during 1985–86. This includes $10,850,000 in reimbursements from responsible parties for various site cleanup projects and $20,921,000 in reimbursements from a variety of public and private sources for health research projects. In contrast to expected reimbursements from federal funds for these projects, these reimbursements are not reflected in the proposed Budget

DEPARTMENT OF HEALTH SERVICES—Continued

Bill and thus fall outside the expenditure control established by the bill. We therefore recommend that $31,771,000 expected as reimbursements supporting special projects be separately identified in Item 4260-001-001.

Errors in Ongoing Staff Costs

We withhold recommendation on $10,141,000 ($4,517,000 General Fund) requested in the department's support budget because the department and the Department of Finance are unable to reconcile the costs of baseline salaries and salary increases.

The budget requests $141 million for personal services to support 3,776 personnel-years. In order to calculate personal services costs, the department (1) calculates the salary costs of ongoing staff by (a) revising the baseline salary costs of authorized positions to reflect reclassifications and other changes and (b) adding merit salary adjustments and 1984–85 salary increases, (2) makes adjustments proposed in budget change proposals, (3) subtracts salary savings, and (4) adds staff benefits.

We identified problems involving the amount of funding needed to support ongoing positions and provide salary increases. For 1985–86, the budget proposes $109,727,000 from various funds to support authorized positions. Worksheets prepared by the Department of Health Services' budget office show that $109,186,000 is needed to fund these positions. The department and the Department of Finance were unable to reconcile the $541,000 difference between these two amounts. There are larger differences in the cost estimates for the current year. Due to these inconsistencies, the Legislature is unable to determine how much is needed to fund the department's base budget for state staff.

We also identified major discrepancies in the amount proposed for merit salary adjustments and salary increases. Specifically, the budget requests $9,600,000 from all funds for these increases, while department worksheets show $11,375,000, or $1,775,000 more than the budgeted amounts. The department and the Department of Finance were unable to reconcile these discrepancies.

We have no alternative but to withhold recommendation on $10,141,000 ($4,517,000 General Fund) requested for departmental support in 1985–86. This amount consists of (1) the difference between the high and low estimates for authorized position costs, $541,000 ($241,000 General Fund) and (2) the budgeted amount for salary adjustments, $9,600,000 ($4,276,000 General Fund). We further recommend that prior to budget hearings, the department and the Department of Finance review and reconcile the cost of baseline authorized positions and salary adjustments and submit documentation of the revised estimates to the fiscal committees.

2. LICENSING AND CERTIFICATION

The Licensing and Certification program develops, implements, and enforces state standards to promote quality health care in approximately 3,400 hospitals, clinics, long-term care facilities, home health agencies, and adult day health centers. In addition, the program performs certification reviews for the federal government at facilities that seek to qualify for Title XVIII (Medicare) or Title XIX (Medi-Cal) funding. Program activities related to Medicare certifications are 100 percent federally funded. Activities related to Medi-Cal certifications are approximately 67 percent federally funded.

The budget proposes expenditures of $20,319,000 ($9,838,000 General Fund) for support of the Licensing and Certification program in 1985–86. This is an increase of $1,408,000, or 7.4 percent, above current-year expenditures.

Court Permits Collection of Licensing Fees

Chapter 327, Statutes of 1982 (SB 1326, the companion bill to the 1982 Budget Act), revised health facility licensing fees and established a mechanism for adjusting the fees annually through the budget process. At the time the measure was enacted, the fees were expected to produce approximately $7.1 million in General Fund revenue during 1982–83, as a partial offset to the $8.0 million spent from the General Fund for the licensing program in 1982–83. For 1983–84, the department expected fees to produce approximately $6,600,000 in General Fund revenue. The Los Angeles Superior Court, however, enjoined the department from collecting licensing fees.

Effective December 20, 1984, the department may begin collecting these fees. This reflects the department's settlement of the CAREX case.

In 1975 CAREX International, Inc., filed suit on behalf of acute care hospitals and long-term care facilities, requesting that the court invalidate the licensing and certification fees assessed by the department since 1974. In the CAREX case, the court ruled that the department (1) had not promulgated fee regulations on a timely basis in four previous years, thereby invalidating fee assessments, and (2) had promulgated fees at levels that were higher than authorized under the existing fee statute in four other years.

Although the department appealed the court's decision, it also sought an out-of-court settlement. With the approval of the Health and Welfare Agency and the Department of Finance, the department presented an offer to the plaintiffs in October 1983. The case was settled December 20, 1984.

The proposed settlement requires the department to:

1. Waive all fees assessed from January 1, 1982, to December 31, 1983. These fees amounted to $13,710,000.

2. Forgive any unpaid fees assessed from January 1, 1974, through December 31, 1981. The department estimates this amount to be $5,790,000.

3. Credit towards future payments any licensing fees paid by long-term care facilities during the period June 24, 1981, to January 1, 1982. The department will be required to credit fees in the amount of $348,000.

4. Use $700,000 in licensing fees collected during 1984 to pay plaintiff's attorney's fees.

The total General Fund revenue loss to the department from the CAREX case is $20,548,000. The department, however, can now collect licensing fees.

Licensing Fee Proposal

We recommend (1) approval of the fee schedule proposed by the department and (2) adoption of Budget Bill language that specifically identifies the proposed changes in fees.

Chapter 327, Statutes of 1982, requires the department to submit a proposed health facility fee schedule to the Legislature as part of its annual budget request. The act requires the department to set the licensing fees at a level sufficient to provide revenues in an amount equal to (1) the current-year expenditures for Licensing and Certification, as specified in

DEPARTMENT OF HEALTH SERVICES—Continued

the proposed Governor's Budget for the current year, less other specified revenues generated by the program, *plus* (2) the federal funds budgeted in the current year less federal funds received in the current year.

The department submitted its fee proposal on January 31, 1985.

The department estimates current-year General Fund expenditures of $9,456,000 for the Licensing and Certification program. In developing its fee proposal, the department subtracted from this amount (1) $2,286,000 in federal funds exceeding budgeted amounts in 1983–84, (2) $206,000 in other revenues generated from other program fee assessments, and (3) $432,000 attributable to facilities exempt from fees. This leaves $6,532,000 as the basis for its hospital and long-term care fee schedule. To develop its fee schedule, the department allocated 82 percent of this amount to long-term care facilities and 18 percent to hospitals, based on the program's relative workload related to these facilities. The fee schedule proposed by the department would result in $6,532,000 in revenue, of which $852,000 would be collected from hospitals and $5,180,000 would be collected from long-term care facilities. The proposed fee schedule is shown in Table 5.

Table 5
Department of Health Services
Proposed Health Facility Annual License Fee Schedule
1985–86

Facility Type	*Number of Nonexempt Facilities*	*Number of Nonexempt Beds*	*Proposed Fees*	*Total Revenue*
Hospitals	464	77,286	$11.03 per bed	$852,000
Long-term care facilities	1,196	108,807	$52.20 per bed	5,680,000
Total				$6,532,000

Because the proposed fee schedule fulfills the requirements of current law, we recommend that it be approved. In addition, we recommend adoption of the following Budget Bill language that specifically identifies the fees:

"Effective July 1, 1985, the annual fee for a general acute hospital, acute psychiatric hospital, special hospital, general acute care/rehabilitation hospital, psychiatric health facility, and chemical dependency recovery hospital is $11.03 per bed.

"Effective July 1, 1985, the annual fee for a skilled nursing facility, intermediate care facility, or intermediate care facility for the developmentally disabled is $52.20 per bed."

Complainant Hearing Process

We withhold recommendation on $259,000 ($124,000 General Fund) and 7.5 positions requested for conferences with complainants, pending receipt of additional workload information.

The budget proposes $259,000 and 7.5 positions to conduct informal conferences for those complainants who are dissatisfied with the results produced by the department's investigation of complaints against long-term care facilities.

Chapters 1632 and 1625, Statutes of 1984, permit a complainant to appeal the results of a complaint investigation through an informal hearing with the department. Prior law did not permit a complainant to appeal the results of an investigation.

The budget proposal assumes that the department will be required to conduct 800 informal conferences with complainants. This estimate assumes that (1) the department will receive 6,400 complaints as a result of installing toll-free telephone lines in each of the licensing and certification district offices and publicizing the availability of the number and (2) 12 percent of the complainants will request informal conferences with the department. The department received 3,200 complaints in 1983–84, one-half of the number the department is now expecting.

Because the installation of phone systems was completed in November, 1984, it is too early to determine the validity of the department's estimates. The department is beginning to receive data on the post-installation volume of complaints, and we withhold recommendation on the request for informal conferences, pending receipt of this data.

Management Information System

We withhold recommendation on $1,193,000 ($603,000 General Fund) requested for the development of the Automated Certification and Licensing Administrative Information and Management System (ACLAIMS), pending receipt of a detailed implementation schedule and a spending plan for the project. We recommend that during budget hearings, the department (1) explain the reasons for the delays in implementing the ACLAIMS and (2) identify how it is spending funds appropriated for the project in the current year.

The 1984 Budget Act appropriates $1,193,000 ($603,000 General Fund) for the department to develop the Automated Certification and Licensing Administrative Information and Management System (ACLAIMS). The budget requests the same amount for 1985–86.

The ACLAIMS will contain information for each long-term care facility on (1) deficiencies identified during inspections, (2) complaints, (3) citations, and (4) ownership. The system will permit the department to respond to citizen requests for information about specific facilities. The department developed the proposal for ACLAIMS in response to a report by the Auditor General released in August 1982. The Auditor General found that the department's current facility information system produced unreliable reports and was not equipped to monitor and analyze trends in substandard long-term care facilities.

When this proposal was approved by the Legislature, the department anticipated that the ACLAIMS would be fully operational by February 1985. The funds in the 1984 Budget Act were for one-time system development costs.

The department now indicates that it will not complete system development for ACLAIMS until June 1986—16 months after the target date set just one year ago. At the time this analysis was prepared, the department had not (1) explained the delays in implementing ACLAIMS, (2) identified how it is spending the funds provided in the current year, (3) provided a detailed schedule for the project, nor (4) prepared an expenditure plan for 1985–86.

We withhold recommendation on the $1,193,000 ($603,000 General Fund) proposed for the ACLAIMS, pending receipt of a detailed implementation schedule and an expenditure plan for 1985–86. We recommend that during budget hearings, the department explain the delays in implementing the ACLAIMS and identify how it is spending funds appropriated for system development in the current year.

DEPARTMENT OF HEALTH SERVICES—Continued

Consumer Information System Report

The *Supplemental Report to the 1984 Budget Act* required the department to submit a report to the fiscal committees and the Joint Legislative Budget Committee on the feasibility of implementing, on a statewide basis, the consumer information system on long-term care facilities currently utilized in Los Angeles County. The Legislature specified that the report was to include (1) estimated costs of such a system, (2) a schedule for implementation, (3) an assessment of the feasibility of establishing a rating system for facilities that is uniform throughout the state and includes three to five categories, and (4) the estimated cost to consumers if the program is fee-supported.

In its report, the department indicated that a consumer information system could be developed in two ways: (1) the system utilized in Los Angeles County could be updated and revised for use on a statewide basis and (2) the Automated Certification and Licensing Administrative Information and Management System (ACLAIMS) that the department is currently developing could be enhanced to provide information to consumers.

The report's conclusions are discussed below.

1. ***Estimated Costs.*** The department estimates that it would cost a minimum of $258,000 to revise the Los Angeles system for use statewide. The department, however, will not be able to assess the cost of modifying the ACLAIMS for this purpose until the system is operational. It estimates the ongoing cost of maintaining and operating a statewide consumer information system to be $200,000.

2. ***Implementation Schedule.*** Based on the department's estimates, a consumer information system could not be made available on a statewide basis before December 1986, assuming that implementation could begin in July 1985.

3. ***Potential for Facility Ranking.*** The report concludes that implementing a rating system for long-term care facilities is not feasible. This is because the rating system would be based primarily on surveys that occur once each year, while the condition of facilities can change significantly between surveys. The department indicates that the ACLAIMS could be successfully utilized to provide information about violations and complaints associated with a particular facility.

4. ***Feasibility of Supporting System Through Fees.*** The report concludes that it would not be feasible to charge fees for using the system because fees would serve as a barrier to the use of the service by the public. The department indicates that it might be appropriate for institutional users of the system to pay user fees. Some current insititutional users of the Los Angeles County system include hospitals, service agencies, and county welfare departments.

The budget does not propose any funds to implement a consumer information system.

Proposed New Surveyor Positions

We recommend that 6.5 out of 17.5 new positions that are requested to conduct full surveys, and $161,000 ($77,000 General Fund) be deleted because the position increases are not justified on a workload basis. We further recommend (1) redirection of $86,000 ($41,000 General Fund) to

the department's contract with Los Angeles County because a portion of the identified workload is in Los Angeles County and (2) that the department explain during budget hearings what it is doing to address high vacancy rates in the Licensing and Certification Division.

The budget requests $689,000 ($331,000 General Fund) for 17.5 new positions to perform licensing and certification surveys for long-term care facilities. Currently, the state performs abbreviated surveys (inspections) of certain long-term care facilities. The federal government has indicated that the state must discontinue abbreviated surveys, effective October 1, 1985. The new staff would allow the department to perform full surveys at all long-term care facilities.

Background. In 1981–82, the federal government reduced its support for licensing and certification by approximately $1.3 million. The funding reduction led to a reduction of approximately 25 positions in 1982–83 and 1983–84. In order to accommodate that reduction, the federal government authorized abbreviated surveys for long-term care facilities. The abbreviated surveys allowed California to adjust to reduced federal support for licensing and certification by reducing the amount of staff time required for certification of skilled nursing facilities. Under this approach, a survey team could complete a survey in less than one-half the time required by a full survey—two to two and one-half days, compared to five to seven days. The federal government, however, has determined that the abbreviated surveys are of limited value and required the state to resume full surveys.

In 1983–84, the division performed 402 abbreviated surveys. In its 1984–85 budget, the department requested additional staff so that it could increase the number of full surveys and reduce the number of abbreviated surveys to 216. The Legislature approved the department's request.

Budget Proposal. The federal government is requiring full phase-out of abbreviated surveys, beginning in October 1985. Accordingly, the department proposes additional staff to perform full surveys instead of abbreviated surveys in all facilities during 1985–86. The 17.5 staff and $689,000 ($331,000 General Fund) requested by the department would allow it to perform 274 additional full surveys. The department requests support for 274 full surveys, instead of 216, because the department now estimates that it will perform 274 abbreviated surveys in the current year rather than 216 as originally planned, due to lack of staff.

Our analysis indicates that the department's current-year problem is caused by a high vacancy rate in health facility surveyor positions, not a lack of staff positions. In December 1984, the department had 30 vacancies out of 125 authorized surveyor positions. This is a vacancy rate of 24 percent. During 1984 the vacancy rate ranged from 7.1 percent in January to 38 percent in August and September. Table 6 displays the number of vacant surveyor positions in 1984.

Because the problem is caused by a high vacancy rate, rather than by a lack of staff, it cannot be solved by authorizing and funding new positions. Hence, we recommend that the Legislature provide sufficient staff to perform an additional 216 full surveys.

Our analysis indicates that the department needs 11 positions and $86,000 ($41,000 General Fund) in funds for a contract with Los Angeles County for full surveys. This is 6.5 positions and $161,000 ($77,000 General Fund) less than what the budget proposes. The budget did not propose any additional funds to conduct full surveys in Los Angeles, although our analysis indicates that the county will have to conduct approximately 48 of the 216 additional full surveys in the budget year.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 6
Department of Health Services
Licensing and Certification Division
Surveyor Vacancies
1984

Month	*Total Authorized Positions*	*Total Vacancies*	*Percent of Total Positions*
January	99.0	7.0	7.1%
February	96.0	9.0	9.4
March	96.0	9.0	9.4
April	96.0	9.0	9.4
May	96.0	21.0	21.9
June	96.0	22.0	22.9
July	125.5	46.5	37.1
August	125.5	47.5	37.8
September	125.5	47.5	37.8
October	125.5	43.5	34.7
November	125.5	35.5	28.3
December	125.5	30.5	24.3

Accordingly, we recommend reduction of 6.5 positions, deletion of $161,000 ($77,000 General Fund), and redirection of $86,000 ($41,000 General Fund) for the department's contract with Los Angeles County. We also recommend that the department explain during budget hearings what it is doing to reduce high vacancy rates in the Licensing and Certification Division.

Medical Consultant Services

We recommend approval.

The department proposes $127,000 ($61,000 General Fund) in contract funds for medical consultant services. These funds would be used to augment the department's medical consultant staff.

The department indicates that it needs medical consultant services to augment its current staff of three positions because (1) the department is unable to respond to complaints within the 10 days required by statute, (2) there is additional workload due to an increased number of ambulatory surgical centers and dialysis centers, which must be surveyed by a physician, and (3) there is additional need for consultant services due to increased enforcement activities. The proposal includes sufficient funds to contract for an equivalent of 1.4 positions.

The department proposes obtaining these services through contracts because it (1) has had difficulty keeping the medical consultant positions filled in the past and (2) can contract with physicians near district offices on an as-needed basis. The proposal appears reasonable, and consequently we recommend that it be approved.

Position Reductions

We recommend approval.

The budget proposes to eliminate four positions for a savings of $125,000 ($65,000 General Fund), due to reduction of workload and better utilization of existing staff. The positions proposed to be eliminated include two occupational therapist consultants, one word processing technician, and one staff services analyst. Two of the positions currently are vacant.

The proposed reductions are reasonable, and we recommend that they be approved.

Proposal for Segmented Surveys

Chapters 1629 and 1631, Statutes of 1984, require the department to submit, by July 1, 1985, a request to the federal Department of Health and Human Services for permission to perform "segmented surveys" as part of a three-year pilot project. Under this approach, the department would perform the current survey in approximately three separate visits to a facility, instead of during one annual visit. The purpose of segmented surveys is to lessen the predictability of inspections.

The department proposes to conduct the pilot in the Sacramento and San Jose district offices. The department would identify all facilities that have received class "A" citations or are considered to be marginal providers. One-half of this group would receive segmented surveys and the other half would receive annual surveys.

At the time this analysis was prepared, the department had submitted the proposal to the federal government, but the federal government has not responded.

3. PREVENTIVE HEALTH SERVICES

The Preventive Health Services program provides state support for California's public health programs. To administer these public health programs, the department maintains five divisions with the following responsibilities:

1. ***The Office of County Health Services and Local Public Health Assistance*** (a) distributes funds appropriated by AB 8 (Ch 282/79) to local health agencies, (b) distributes funds to counties for care of medically indigent persons, (c) administers state and federal subvention programs that provide funds for the support of local public health activities, (d) distributes funds for capital outlay projects to local health agencies, and (e) provides technical assistance in funding matters to local health departments.
2. ***The Community Health Services Division*** addresses the special needs of women and children through the Family Planning, Maternal and Child Health, Genetic Disease, California Children's Services, Genetically Handicapped Persons', and Child Health and Disability Prevention programs.
3. ***The Rural Health Division*** is responsible for improving the quantity and quality of health services available to underserved rural, farmworker, and Indian populations through the provisions of public health services in small rural counties and the funding of primary health care clinics.
4. ***The Environmental Health Division*** operates programs to protect public health by controlling food, drugs, water supplies, vectors, noise, and unnecessary exposure to ionizing radiation.
5. ***The Health Protection Division*** is responsible for (a) preventing and controlling infectious and chronic disease, (b) conducting epidemiological studies including the health effects of toxics in the environment and the workplace, and (c) operating public health laboratories.

In addition, preventive health services staff administer a number of special projects. These projects, which are shown separately in the budget,

DEPARTMENT OF HEALTH SERVICES—Continued

are studies or demonstration projects that are 100 percent funded by the federal government, other state agencies, or other organizations.

Budget Proposal

Local Assistance. The budget proposes $1,077,178,000 (all funds) in local assistance for preventive health services. This represents an increase of $46,230,000, or 4.5 percent, above estimated current-year expenditures. Table 7 presents local assistance expenditures, by program, for 1983–84 through 1985–86.

The local assistance increase primarily reflects:

- A $45,074,000 (General Fund) increase to provide a 5.35 percent cost-of-living adjustment (COLA) for AB 8 county health services and a 4 percent COLA for other preventive health services programs.
- A $10,353,000 ($1,082,000 General Fund and $9,228,000 federal funds) increase to establish an Adolescent Pregnancy program and expand other perinatal services.
- A $20,142,000 decrease in funds allocated to counties for special projects and capital expenditures.

Table 8 reflects the proposed budget changes that would affect local assistance expenditures in 1985–86.

Department Support. The budget proposes $90,747,000 for department support attributable to preventive health programs in 1985–86. This amount excludes funding for special projects. The requested amount is $5,626,000, or 6.6 percent, more than estimated current-year expenditures.

The budget proposes a net reduction of 143.5 positions from current-year position counts. This is a reduction of 11 percent. The apparent discrepancy between the reduction of positions and the increase in support costs is due to the administration's efforts to contract for support functions.

Table 7
Department of Health Services
Preventive Health Local Assistance
Expenditures and Funding Sources
1983–84 through 1985–86
(dollars in thousands)

	Fund	Actual 1983–84	Estimated 1984–85	Proposed 1985–86	Change 1985–86 over 1984–85 Amount	Change 1985–86 over 1984–85 Percent	Funds Included In FHI Program
1. County health services	All	$845,209	$898,636	$921,184	$22,548	2.5%	
A. Local government fiscal relief (AB 8)	General	366,925	384,316	405,225	20,909	5.4	
B. County public health projects	CHSF	2,200	2,200	—	−2,200	−100.0	
C. Reversions	General	−2,365	—	—	—	—	
D. Local health capital expenditures	LHCEA	—	17,942	—	−17,842	−100.0	
E. Public health subvention	General	621	705	761	56	7.9	
	Federal	394	466	585	119	25.5	
F. Medically indigent services	General	477,434	493,007	514,613	21,606	4.4	

2. Community health services	All	$102,935	$118,390	$141,066	$22,676	19.2%	
A. Family planning	General	$28,103	$28,982	$15,071	−$13,911	−48.0%	$15,071
B. Maternal and child health (MCH)	General	$3,158	$3,309	$1,722	−$1,587	−48.0%	$2,844
	Federal	12,136	16,954	8,477	−8,477	−50.0	17,705
Existing MCH programs	General	3,158	3,309	1,722	−1,587	−48.0	1,719
	Federal	12,136	16,954	8,477	−8,477	−50.0	8,477
Perinatal improvement augmentation	Federal	—	—	—	—	—	5,400
Adolescent pregnancy augmentation	General	—	—	—	—	—	1,125
	Federal	—	—	—	—	—	3,828
C. Primary care clinics	General	$504	$973	$506	−$467	−48.0%	$505
D. Genetic disease	General	$1,570	$1,614	$1,679	$65	4.0%	
Sickle cell	General	503	518	539	21	4.1	
Prenatal counseling	General	611	629	654	25	4.0	
Tay-Sachs	General	456	467	486	19	4.1	
E. California children's services							
Genetically handicapped persons program	All	$5,152	$5,940	$6,195	$255	4.3%	
	General	5,082	5,870	6,125	255	4.3	
	Repayments	70	70	70	—	—	
California children's services	All	$45,041	$50,167	$56,470	$6,303	12.6%	
	General	38,007	44,713	51,016	6,303	14.1	
	Federal	6,445	4,704	4,704	—	—	
	Repayments	589	750	750	—	—	
					—	—	
F. Adult day health care	General	$249	—	—	—	—	
G. Child health and disability prevention	General	$7,022	$10,451	$5,684	−$4,767	−45.6%	$5,582
H. Family health initiative (FHI) program	All	—	—	45,262	45,262	—	
	General	—	—	26,914	26,914	—	
	Federal	—	—	18,348	18,348	—	
3. Rural health	General	$7,595	$8,536	$10,396	$1,860	21.8	
A. Rural health	General	3,584	3,713	3,862	149	4.0	
B. Primary care clinics	General	224	431	448	17	3.9	
C. Indian health	General	2,818	2,881	2,996	115	4.0	
D. Farmworker health	General	969	1,511	3,090	1,579	104.5	
4. Health protection	General	$5,139	$5,386	$4,532	−$854	−15.9%	
A. Preventive health care for the aging	General	1,180	1,252	651	−601	−48.0	651
B. Lupus erythematosus research	General	684	742	772	30	4.0	
C. Dental disease prevention	General	1,498	1,545	804	−741	−48.0	803
D. Immunization assistance	General	1,370	1,412	1,853	441	31.2	416
E. Tuberculosis control	General	407	435	452	17	3.9	
Totals	All	$960,878	$1,030,948	$1,077,178	$46,230	4.5%	
Funding sources:							
General Fund		*$939,044*	*$987,862*	*$1,044,244*	*$56,382*	*5.7%*	
Federal funds		*18,975*	*22,124*	*32,114*	*9,990*	*45.2*	
Family repayments		*659*	*820*	*820*	—	—	
County Health Services Fund		*2,200*	*2,200*	—	*−2,200*	*−100.0*	
Local Health Capital Expenditure Account		—	*17,942*	—	*−17,942*	*−100.0*	

DEPARTMENT OF HEALTH SERVICES—Continued

The major increases in the support budget are proposed to:

- Develop drinking water standards (13.5 positions and $6.4 million).
- Reflect increases in hazardous materials laboratory workload (16 positions and $2.2 million).
- Reflect workload increases in epidemiology and toxicology related to pesticides, toxic air contamination, and hazardous waste sites (16 positions and $1.2 million).
- Expand the Acquired Immune Deficiency Syndrome (AIDS) screening, surveillance, and information program (7 positions and $1 million).
- Continue Alzheimer's Disease research grants ($1 million).

Table 8

Department of Health Services
Preventive Health Local Assistance
Proposed Budget Changes
(in thousands)

	General Fund	*All Funds*
1984–85 expenditures (Budget Act)	$987,862	$1,013,006
Baseline adjustments, 1984–85		
1. Capital projects	—	17,942
1984–85 expenditures (revised)	$987,862	$1,030,948
Baseline adjustments, 1985–86		
1. Increase in preventive health block grant	—	119
2. Termination of county special projects	—	−2,200
3. Termination of capital outlay projects	—	−17,942
4. Transfer of County Medical Services program administration to support ($947,000) and the Medi-Cal fiscal intermediary ($257,000)	−1,204	−1,204
5. Farmworker health insurance increase	1,539	1,539
6. Rural health cash out	443	443
Caseload and cost adjustments:		
1. California children's services (CCS)—utilization increase	4,341	4,341
2. Genetically handicapped person's—program utilization increase	19	19
3. Child health and disability prevention (CHDP) utilization increase	341	341
Cost-of-living adjustments:		
1. Health protection (4 percent)	144	144
2. Community health services (4 percent)	4,277	4,277
3. County health services (AB 8, 5.35 percent; rest, 4 percent)	40,332	40,332
4. Rural health services (4 percent)	321	321
Program change proposals:		
1. Family health initiative proposal transfer of support funds to local assistance	1,002	1,645
2. Perinatal improvement	—	5,400
3. Adolescent pregnancy	1,082	4,910
4. County medical services program augmentation	3,000	3,000
5. Immunization assistance augmentation	800	800
6. CHDP claims processing contract	−55	−55
1985–86 expenditures (proposed)	$1,044,244	$1,077,178
Change from 1984–85 (revised):		
Amount	$56,382	$46,230
Percent	5.7%	4.5%

The major reductions in support reflect the administration's proposals to:

- Consolidate seven categorical preventive health programs into the Family Health Initiative (FHI) program, effective January 1, 1986 (80 positions and $1.6 million).
- Restructure programs to increase efficiency (32 positions and $1.1 million).
- Reorganize programs within preventive health services (15 positions and $800,000).
- Contract for child health and disability prevention (CHDP) claims processing (30 positions in the Community Health Services Division, 6 positions in the Administration Division, and $1 million).
- Consolidate three county health services programs into one program (19.5 positions and $500,000).
- Transfer the Office of Long-Term Care and Aging to the Department of Aging, as required by legislation (13 positions and $600,000).

Table 9 displays staffing and operating support for each preventive health program in the current and budget years.

Table 10 details the budget changes proposed for each preventive health program.

Table 9
Department of Health Services
Preventive Health Support
Positions and Expenditures—All Funds
1984–85 and 1985–86
(dollars in thousands)

	Positions			*Expenditures*		
	Estimated 1984–85	*Proposed 1985–86*	*Percent Change*	*Estimated 1984–85*	*Proposed 1985–86*	*Percent Change*
County health services	44.5	23.0	−48.3%	$2,365	$1,888	−20.2%
Community health services	269.1	163.5	−39.2	13,198	11,108	−15.8
Rural health services	97.4	76.9	−21.0	4,482	3,805	−15.1
Environmental health	296.7	297.1	—	15,189	17,741	16.8
Health protection	607.1	610.8	0.6	37,494	44,438	18.5
Subtotals	1,314.8	1,171.3	−10.9%	$72,728	$78,980	8.6%
Distributed overhead	302.9	261.8	−13.6	12,393	11,767	−5.1
Subtotals	1,617.7	1,433.1	−11.4%	$85,121	$90,747	6.6%
Special projects	796.1	845.2	6.2	207,803	237,780	14.4
Totals	2,413.8	2,278.3	−5.6%	$292,924	$328,527	12.2%

Cost-of-Living Adjustments Overbudgeted

We recommend a reduction of $7,225,000 in the amount requested from the General Fund to reflect revised estimates of funding requirements for cost-of-living adjustments (COLAs).

The budget requests $45,074,000 from the General Fund for (1) a 5.35 percent increase in AB 8 county health services funds, based on the formula specified in statute, and (2) a 4 percent increase for other programs.

We identified the following instances of overbudgeting for COLAs:

1. Based on actual increases in the Consumer Price Index, the statutory COLA provided for AB 8 county health services local assistance should be 3.63 percent, not 5.35 percent as proposed in the budget. This warrants a reduction of $6,627,000.

2. Funds proposed for adolescent pregnancy projects should not receive a COLA since this is a new program and there is no base level of funding. These funds should be deleted, for a savings of $43,000.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 10
Department of Health Services
Preventive Health Services Support
BudgetChanges
(dollars in thousands)

	Positions	*General Fund*	*All Funds*
Office of County Health Services			
1. County health transfer	−19.5	−$440	−$466
Community health services			
1. Family health initiative	−69.0	−766	−1,410
2. Family health administration	(47.5)	(656)	(1208)
3. Contract for child health and disability prevention claiming	−30.0	−146	−442
4. Transfer of Office of Long-Term Care and Aging to Department of Aging	−13.0	−315	−630
5. Newborn screening	3.0	—	80
6. Maternal PKU program	—	—	63
7. Adolescent pregnancy	2.0	90	90
8. Reorganization	−3.0	−83	−111
Rural health			
1. County cash-out	−11.0	−422	−422
2. Reorganization	−9.0	−459	−459
Environmental health			
1. Drinking water	9.0	3,063	3,063
2. Regulation of radioactive materials and machines	3.0	489	489
3. Toxic art supply regulations	—	141	141
4. Mosquito control	—	65	65
5. Program efficiencies	−10.0	−334	−452
Health protection			
1. Drinking water	4.5	3,370	3,370
2. Hazardous materials laboratory and bond act implementation	16.0	—	2,206
3. AIDS	7.0	1,034	1,034
4. Alzheimer's disease	1.0	1,000	1,000
5. Toxic air contaminants	3.0	444	444
6. Family health initiative	−11.0	−233	−233
7. Pesticides	6.0	369	369
8. Risk assessment and technical support for toxics	7.0	—	365
9. Reorganization	−3.0	−100	−100
10. Program efficiencies	−22.0	−454	−688
Subtotals	−139.0	$6,313	$7,366
Temporary help reduction	−10.0	−195	−251
Administrative assistants reduction	−8.0	−235	−285
Total budget change proposals	−157.0	$5,883	$6,830
Other adjustments			
1. County Medical Services Program transfer from local assistance	—	947	—
2. Environmental toxicology funding shift	—	−615	—
Back-out proposals implemented in the current year	13.0	315	630
Totals	144.0	$6,530	$7,460

3. Inflation adjustments for hospital inpatient and therapy expenditures were included in calculations of the "base budget" amounts for both California Children's Services (CCS) and the Genetically Handicapped

Persons' program (GHPP). Therefore, these services should not be included when calculating the COLA for CCS and GHPP. The 4 percent COLA, however, was calculated on the total base budget, resulting in overbudgeting of $379,000 for CCS and $36,000 for GHPP. These funds should be deleted, for a savings of $410,000.

4. The state subvention for local public health assistance includes a 4 percent COLA amounting to $30,000. Section 1141 of the Health and Safety Code specifies that the counties shall receive $.60 per capita, or $16,000, whichever is less. A COLA historically has not been appropriated for this program, and this one should be deleted, for a reduction of $30,000.

5. The department correctly deducted Medi-Cal funding for Child Health and Disability Prevention (CHDP) program services before calculating the COLA on the CHDP funds transferred to the Family Health Initiative program in the latter half of 1985–86 ($5,368,000). The department apparently failed to deduct Medi-Cal funding before calculating the COLA on CHDP funds for the first half of 1985–86. The difference that should be deleted from the CHDP COLA amount totals $115,000.

We therefore recommend a reduction of $7,225,000 from the General Fund to correct for overbudgeting.

Reorganization

The budget proposes eliminating 15 positions due to a reorganization. The position reductions include 9 in the Rural Health Division, 3 in the Health Protection Division, and 3 in the Community Health Services Division.

Although several budget documents refer to this reorganization, the department has not completed its reorganization plan. It appears that three programs—rural health services, community health services, and county health services—will be consolidated into one division and that the current Health Protection Division will be split into three units—a laboratory services division, a preventive medical services division, and an office of epidemiology and toxicology.

The basic outlines of the reorganization and the associated position changes appear reasonable. We may have additional comments on this proposal during budget hearings if the department has completed its reorganization plan by that time.

Program Efficiencies

We recommend approval.

The budget proposes to eliminate 32 positions as a result of "program efficiencies." Five positions would be eliminated from the cannery inspection program as a result of workload reductions. The remaining positions proposed for elimination are distributed throughout the Environmental Health Division (5 positions) and the Health Protection Division (22 positions).

The department indicates that the impact of the reductions will be to (1) increase supervisory span of control, (2) require additional sharing of work, and (3) reduce the number of laboratory inspections. The department states that the reductions will have minimal program impact.

In our review of the individual position reductions, we were unable to identify any significant adverse effects from these reductions. Consequently, we recommend that they be approved.

DEPARTMENT OF HEALTH SERVICES—Continued

Poor Response to Legislative Reporting Requirements

We recommend that prior to budget hearings, the Department of Health Services explain to the Legislature why 16 reports required by statute and the Supplemental Reports to the 1983 and 1984 Budget Acts were late or are overdue.

The Legislature, through statutes and the *Supplemental Reports of the 1983 and 1984 Budget Acts,* directed the department to submit 17 reports related to preventive health services. As Table 11 shows, at the time this analysis was prepared, 13 reports were overdue. Three reports had been submitted, but they were received more than three months after the due date. The remaining report is an annual report that was last submitted in November 1984.

Table 11

Department of Health Services
Preventive Health Services
Legislative Reporting Requirements

	Division	*Due Date*	*Date Received*
A. Statutory requirements			
1. Small water system monitoring....	Environmental Health	1/1/85	Past due
2. Five-year plan for Epidemiological Studies Section	Health Protection	12/31/84	Past due
3. Beilenson provision reports on service reductions..........	County Health	Annually starting 1981	Past due (last report January 1983)
4. County health services administrative cost control plan and reports	County Health	Annually starting in 1983	Past due (no reports submitted)
5. County health services report......	County Health	Annually starting in 1982	Last report November 1984
6. Trends and services report..........	County Health	Annually starting in 1982	Past due (last report August 1983)
B. The 1983 Budget Act Supplemental Report			
1. Feasibility study for a California Center for Disease Control	Health Protection	2/1/84	Past due
C. The 1984 Budget Act Supplemental Report			
1. Public health fee preliminary report..........	Administration	9/1/84	12/12/84
2. Public health fee final report	Administration	12/1/84	Past due
3. Neural tube defects quarterly report..........	Community Health Services	9/30/84 12/30/84	1/7/85 Past due
4. Work plan for toxic air contaminant program..........	Health Protection	11/1/84	Past due
5. California Children's Services (CCS) inpatient utilization review	Community Health Services	10/1/84	2/4/85
6. Plan for monitoring processed food contamination	Environmental Health	12/1/84	Past due
7. Feasibility study for statewide cancer registry..........	Health Protection	12/1/84	Past due
8. Pipe permeability progress report	Environmental Health	12/1/84	Past due
9. Local health capital expenditures progress report	County Health	1/1/85	Past due

When it does not get the reports it needs on a timely basis, the Legislature is unable to make informed decisions about the department's budget proposals. We recommend that prior to budget hearings, the department submit the overdue reports, report on the status of these reports, and describe corrective actions being taken to assure timely transmittal of legislatively mandated reports to the Legislature in the future.

Public Health Fee Adjustment

We recommend that the Legislature reduce the adjustment for public health fee rates proposed in the Budget Bill, in order to more accurately reflect the change in program costs.

Chapter 1012, Statutes of 1980, provides for automatic annual adjustments of certain fees assessed by the department, including environmental health and vital statistics fees. The amount of the annual increase is determined by language in the Budget Act.

The 1985 Budget Bill proposes a 6.3 percent base increase in these fees plus an adjustment of 0.063 percent for each 1 percent increase in employee compensation granted in 1985–86. These increases would become effective January 1, 1986. The proposed base increase includes (1) 4.58 percent to account for current-year increases in personal services expenditures (8 percent increase times 57 percent—the proportion of the budget accounted for by personal services) and (2) 1.72 percent to account for increases in operating expenses (4 percent increase times 43 percent—the proportion of the budget accounted for by operating expenses).

Our analysis indicates that (1) the portion of the base increase attributable to personal services cost increases should not be included because these costs were already included in this year's fee increase and (2) the adjustment needed for each 1 percent increase in employee compensation in 1985–86 should be higher.

Accordingly, we recommend that the base fee adjustment be decreased to 1.72 percent, which is the operating expense portion of the proposed base increase and that the adjustment for employee compensation be increased to 0.57 percent for each 1 percent increase, because personal services are 57 percent of the department's budget.

Legislation Needed to Adjust Public Health Fee Revenues

We recommend that the Legislature (1) enact legislation revising the current procedures for adjusting public health fees to assure that revenues will equal program costs and (2) adopt Budget Bill language requiring the department to adjust fees set by regulation during the budget year.

Current law establishes fees to support various public health regulatory activities and services provided by the department. Some of these services are charged to individuals, such as fees for vital statistics records, while others are primarily assessed on businesses, such as food and drug inspection fees and various laboratory certification fees. Another type of fee is associated with the registration of occupational specialties such as X-ray technicians and public health nurses. Most of the individual fee rates are set in statute or by regulation. Chapter 1012, Statutes of 1980, provides for automatic annual adjustment of many of these fee rates, based on an adjustment factor included in the Budget Act.

The current adjustment method adjusts *all* fees by the same factor. While this method captures some of the changes in departmental costs, it does not reflect unique changes in the costs of specific programs.

In the past, the department has not been able to provide an analysis of the extent to which individual fees are adequate to support related program expenditures. In the *Supplemental Report of the 1984 Budget Act,*

DEPARTMENT OF HEALTH SERVICES—Continued

the Legislature required the department to (1) develop a mechanism for reviewing revenues and expenditures associated with specific fees, (2) report by September 1, 1984, identifying fees, rates, revenues, and expenditures, and (3) report by December 1, 1984, on its recommendations for (a) statutory and regulatory changes to existing fees and (b) new fees for other programs. The department submitted the first report over three months late and has not submitted the second report.

The preliminary report indicates that many fees do not fully fund the related expenditure levels. For example, the Office of the State Registrar is expending $4,070,000 in the current year but receiving $3.4 million in revenue, for a net cost to the General Fund of $670,000. In the case of radiation machine regulation, fee revenue exceeded costs by $210,000.

Our analysis indicates that changes are needed in many fees. The department has the authority to revise certain fees through regulation, but statutory changes are needed for some other fees. Therefore, we recommend that legislation be enacted to revise the current procedures for adjusting public health fees to assure that revenues equal program costs. We further recommend the adoption of the following Budget Bill language:

"The department shall adopt regulations during 1985–86 to adjust various public health fee rates so that program revenues are equal to program costs."

A. COMMUNITY HEALTH SERVICES

Family Health Initiative

The budget proposes to consolidate seven preventive health categorical programs into a program called the Family Health Initiative (FHI), effective beginning January 1, 1986. The programs proposed for consolidation are Maternal and Child Health (MCH), Child Health and Disability Prevention (CHDP), Dental Disease Prevention, Immunization Assistance, Preventive Health Care for the Aging, Family Planning, and Primary Care Clinics (excluding the portion administered by the Rural Health Division). A portion of the local assistance funds associated with the FHI would be transferred to the counties as a block grant. The program would be administered by the Community Health Services Division (CHSD).

The budget proposes $45,262,000 for FHI local assistance in 1985–86, including $26,914,000 from the General Fund and $18,348,000 in federal funds. The total amount requested includes:

- $33,224,000 ($24,747,000 General Fund, $8,477,000 federal funds) from the categorical programs for the period January through June 1986. This amount equals (1) the sum of estimated expenditures for the individual categorical programs during a comparable time period in the current year, plus (2) $143,000 to account for utilization increases in CHDP plus (3) $950,000 for a cost-of-living adjustment (COLA) on the General Fund amounts.
- $5.4 million (federal funds) to improve and expand perinatal services, beginning in July 1985.
- $4,953,000 ($1,125,000 General Fund, $3,828,000 federal funds) for adolescent pregnancy programs, beginning July 1985.
- $1,685,000 ($1,042,000 General Fund, $643,000 federal funds) transferred from support. The funds represent the savings that would be made possible by the deletion of 80 positions from the categorical programs, beginning January 1986.

Table 12 displays proposed funding for FHI local assistance for 1985–86 and 1986–87, when the program will be implemented for a full year. The table identifies the amounts that, under the budget proposal, would be administered by the state and by the counties.

Table 12
Department of Health Services
Family Health Initiative Program
Local Assistance Expenditures
1985–86 and 1986–87
(dollars in thousands)

		1985–86 (half year)			1986–87 (full year)		
	Fund	*Total*	*State Administered*	*Transferred to Counties*	*Total*	*State Administered*	*Transferred to Counties*
Health protection							
Preventive health care for the aging	General	$651	—	$651	$1,302	—	$1,302
Dental health	General	803	—	803	1,606	—	1,606
Immunization assistance	General	416	—	416	832	—	832
Community health services							
Family planning	General	15,071	589	14,482	30,142	1,178	28,964
Maternal and child health (MCH)	General	(2,844)	(2,067)	(777)	(4,566)	(3,011)	(1,555)
	Federal	(17,705)	(9,580)	(8,125)	(26,182)	(9,932)	(16,250)
Existing MCH programs	General	1,719	942	777	3,441	1,886	1,555
	Federal	8,477	1,952	6,525	16,954	3,904	13,050
Perinatal augmentation	Federal	5,400 [a]	3,800	1,600	5,400	2,200	3,200
Adolescent pregnancy augmentation	General	1,125 [a]	1,125	—	1,125	1,1258	—
	Federal	3,828 [a]	3,828	—	3,828	3,828	—
Child health and disability prevention	General	5,582	4,936	646	11,164	10,240	924
Primary care clinics	General	505	505	—	1,010	1,010	—
Transfer from support	General	1,042	—	1,042	1,863	—	1,863
	Federal	643	—	643	1,198	—	1,198
Totals		$45,262	$17,677	$27,585	$79,865	$25,371	$54,494
Funding sources:							
General Fund		*$26,914*	*$8,097*	*$18,817*	*$52,485*	*$15,439*	*$37,046*
Federal funds		*18,348*	*9,580*	*8,765*	*27,380*	*9,932*	*17,448*

[a] Includes full-year support for perinatal and adolescent pregnancy augmentations.

The budget proposes the deletion of 80 positions currently associated with the categorical programs proposed for inclusion in the FHI. This includes 69 from the CHSD and 11 from the Health Protection Division. The CHSD reduction represents 26 percent of the existing positions in the CHSD. The department estimates that administrative savings associated with the elimination of these positions will be $1,646,000 in 1985–86 and $3,061,000 in 1986–87, the first full year in which the proposed transfer would be in operation. These funds, together with a 4 percent COLA on the General Fund amount, are proposed for transfer to local assistance.

The budget proposes to retain 47.5 positions currently associated with the categorical programs to (1) continue to perform functions not proposed for transfer to the counties and (2) assist, monitor, and review local FHI programs. The budget also proposes to add two positions, begin-

DEPARTMENT OF HEALTH SERVICES—Continued

ning July 1986, as part of the proposed new Adolescent Pregnancy program and to delete 4.7 positions in the Administration Division, beginning January 1986.

Table 13 displays the support adjustments proposed in conjunction with the FHI in 1985–86 and 1986–87.

Table 13
Department of Health Services
Family Health Initiative Program
Support Adjustments
1985–86 and 1986–87
(dollars in thousands)

		1985–86 (half year)		*1986–87 (full year)*	
	Positions	*General Fund*	*Federal Funds*	*General Fund*	*Federal Funds*
Health protection					
Preventive health care for the aging	−5.0	−$117	—	−$218	—
Dental health	−4.0	−76	—	−142	—
Immunization assistance	−2.0	−43	—	−78	—
Community health services					
Family planning	−28.5	−568	—	−1,085	—
Maternal and child health	−54.0	−532	−702	−1,041	−$1,359
Child health and disability prevention	−34.0	−323	−493	−611	−942
Subtotals	−127.5	−$1,659	−$1,195	−$3,175	−$2,301
FHI administration	47.5	656	552	1,312	1,103
Subtotals	−80.0	−$1,003	−$643	−$1,863	−$1,199
Administration	−4.7	−$46	−$32	−$106	−$73
Adolescent pregnancy	2.0	90	—	90	—
Totals	−82.7	−$959	−$675	−$1,879	−$1,271

The budget proposes to consolidate the following seven categorical programs into the FHI.

Maternal and Child Health (MCH). The MCH program addresses the health care needs of women and children by (1) subsidizing prenatal care for low-income women, (2) developing services for newborn infants in areas with high concentrations of high-risk patients, (3) supporting regional systems of maternity and newborn care, and (4) supporting outreach efforts to populations with a high percentage of high-risk pregnancies. The target population consists of pregnant women and newborn children, particularly low-income women and women with high-risk pregnancies.

The budget proposes to continue state administration for MCH programs that have statewide or regional significance and do not lend themselves to administration by a single county. Table 14 shows current-year expenditures for MCH programs and proposed changes for 1985–86. It also identifies the portion of each program that would be transferred to counties under the FHI in both 1985–86 and 1986–87. The table includes funds budgeted under the FHI and funds budgeted under the categorical programs.

Table 14
Department of Health Services
Maternal and Child Health Programs
Family Health Initiative (FHI)
and Categorical Programs
1984–85 through 1986–87
(dollars in thousands)

	Fund	*Estimated 1984–85*	*Proposed Augmentations and COLAs* [a]	*Proposed 1985–86*	*Amount Proposed for Transfer to Counties Under FHI 1985–86 Half-Year*	*1986–87 Full Year*
Perinatal dispatch	General	$224	$8	$232	—	—
	Federal	56	—	56	—	—
Perinatal access	General	811	32	843	—	—
	Federal	327	450	777	—	—
Perinatal councils	Federal	—	50	50	—	—
High risk infant follow-up	General	779	32	811	—	—
	Federal	642	750	1,392	—	—
New technologies	Federal	1,596	—	1,596	—	—
Diabetic mothers	Federal	—	400	400	—	—
Prematurity prevention	Federal	—	400	400	—	—
Outreach and training	Federal	346	50	396	—	—
Data systems	Federal	756	—	756	—	—
Adolescent pregnancy	General	—	1,125	1,125	—	—
	Federal	1,400	3,828	5,228	700	1,400
County/community programs	Federal	—	1,200	1,200	600	1,200
County allocations	Federal	1,100	—	1,100	550	1,100
Audit withhold	Federal	181	100	281	—	—
Perinatal services	General	1,495	60	1,555	777	1,555
	Federal	10,550	2,000	12,550	6,275	12,550
Totals		$20,263	$10,485	$30,748	$8,902	$17,805
Funding sources:						
General Fund		*$3,309*	*$1,257*	*$4,566*	*$777*	*$1,555*
Federal funds		*$16,954*	*$9,228*	*$26,182*	*$8,125*	*$16,250*

[a] Includes perinatal improvement ($5.4 million), adolescent pregnancy ($4,953,000) and General Fund cost-of-living adjustments ($132,000).

Child Health and Disability Prevention (CHDP). The CHDP program funds comprehensive health assessments for the early detection and prevention of disease and disabilities in children. The target population for services is (1) Medi-Cal eligible children up to age 21 and (2) low-birth-weight infants and children entering school whose family incomes fall below 200 percent to the Aid to Families with Dependent Children income standard. Health assessments for Medi-Cal eligible children are mandated under the federal Early Periodic Screening, Diagnosis, and Treatment (EPSDT) program.

While the budget proposes to transfer the administration of the CHDP program to the counties, funding for direct services will be retained at the state level. This will enable the counties to avoid having to develop billing and reimbursement systems for local CHDP providers that would require a major increase in county administrative costs. Instead, providers of CHDP federal- and state-reimbursable health screenings will continue to bill the state directly, and the state will remain at risk for service expenditures that exceed budgeted levels.

DEPARTMENT OF HEALTH SERVICES—Continued

In addition, the budget proposes to retain at the state level the functions associated with the EPSDT program.

Dental Disease Prevention. The dental health program promotes dental disease prevention programs, provides consultation on dental disease, and administers the school-based Dental Disease Prevention program established by Ch. 1134/79 (SB 111).

Immunization Assistance. The immunization unit oversees the distribution to local health departments of vaccines and local assistance for immunization of children and senior citizens. State staff assist counties in reviewing children's school immunization records, train county personnel in vaccine-preventable diseases and control techniques, and respond to disease outbreak situations. The budget proposes continuing a majority of the local assistance funding as a categorical program in the Health Protection Division.

Preventive Health Care for the Aging. The Preventive Health Care for the Aging program funds city and county health departments to provide public health nurses for health appraisals, counseling, referrals and follow-up, and other preventive health services to older adults in senior citizen centers, housing projects, congregate meal sites, and community clinics.

Family Planning. The Office of Family Planning funds contraceptive, sterilization, information, and education services to a target population of low-income persons whose incomes are higher than the Medi-Cal eligibility limit.

The budget proposes continued state administration for information and education programs having statewide significance.

Primary Care Clinics. This program funds operating expenses of primary care clinics. This program would continue to be entirely state-administered.

Proposal for Transferring Funds to Counties

Under the FHI, responsibility for provision of services, as well as the funds associated with current categorical programs and $1,685,000 in state administrative cost savings, would be transferred to the counties. Counties would have significant flexibility in designing their own programs. Significant aspects of the transfer are discussed below:

To receive FHI funds, counties would be required to submit an application that includes (1) a description of the populations and localities to be served, (2) a statement of goals and objectives for meeting identified needs, (3) information on the services the county would provide, including a description of who will provide the services, (4) an assurance that funds will be used to meet stated goals and needs and that the county will meet all funding conditions, and (5) a proposed budget that would specify local health department staffing and subcontracts, by agency and amount. Existing plan requirements would be eliminated.

While counties would have significant flexibility in administering their programs, they would be required to maintain the level of funding for current providers (i.e., clinics and other agencies) within each of the current categorical programs for two years, except that they would be able to use monies currently allocated for family planning information and education projects for administration of the transfer. After this two-year period, counties could adjust both their own funding and the funding of non-county providers in order to best meet individual local needs. They would still be required, however, to spend the funds for purposes within the scope of the transfer. Counties could not use FHI funds to supplant county funds, and would have to meet federal requirements in spending MCH block grant funds. Family planning funds could not be used for abortions or services ancillary to abortions.

Funding Allocations. Under the FHI, counties would receive the amounts previously awarded within the county under the categorical programs. The department would allocate the state's administrative savings to counties on the basis of population and need, but would ensure that each county received a minimum of $15,000 in administrative funds and that the five counties currently receiving no categorical funds would receive a minimum of $20,000 for a total of $35,000 each.

Eligibility and Service Standards. The department proposes to continue those eligibility and service standards that apply to EPSDT, CHDP, and the federal MCH block grant. The budget change proposal states that the counties would have to continue meeting the minimum professional and program standards outlined in Title 17 of the California Administrative Code and that the department will develop additional minimum program standards in consultation with the California Conference of Local Health Officers and the California Conference of Local Maternal and Child Health Directors. The department indicates that it will propose enactment of legislation that may alter standards that apply to existing categorical programs in order to increase flexibility under the FHI.

State Responsibilities. The department proposes to establish a Family Health Branch consisting of four sections: analysis and evaluation (13 positions), statewide program and standards development (13.5 positions), local program consultation and support (21 positions), and women, infants, and children (WIC) supplemental nutrition. The budget proposes 69 positions for the WIC program. These positions are budgeted in the special projects line item.

Branch staff would be responsible for (1) maintaining data systems and compiling mandated reports, (2) providing consultation and technical assistance to local programs, (3) administering the programs of statewide and regional significance, (4) developing standards and regulations for transferred programs, and (5) monitoring local programs.

Reporting, Audit and Oversight Requirements. Counties would be audited every two years to determine whether they meet federal MCH block grant requirements. As a result of Ch 1343/82 (AB 3295), these audits will cover compliance with program requirements as well as fiscal aspects of the programs. The department intends to determine the counties' compliance with requirements related to supplanting of county funds by reviewing expenditure reports submitted under the county health services program.

The department will require that counties utilize fiscal controls and accounting procedures necessary to assure the timely receipt and proper disbursement of funds, and maintain records necessary for any state or federal audits.

More Information Needed

We withhold recommendation on the FHI proposal, pending receipt of the proposed implementing legislation and additional information regarding the proposal.

Our review of the FHI indicates that the proposal has merit. For example, we find that under the new program:

- Responsibility for establishing funding levels for local health programs would be vested with that level of government most familiar with, and most responsive to, local needs.

- Responsibility for administering local health programs and selecting local providers would be assigned to that level of government best able to oversee program operations.
- Administration of health programs at the local level could be centralized and streamlined, because counties would not need to comply with state program regulations and separate reporting and auditing requirements that apply to individual programs.
- The state would experience savings because there would not be the need for as many state staff to administer local programs. The funds for this staff would be allocated to counties, making it available for additional services.

We cannot, however, recommend approval of the FHI at this time for two reasons: (1) at the time this analysis was prepared, the proposed legislation that would implement the program was not available and (2) the Legislature needs additional information in order to evaluate the proposal.

Additional Information Needs. Generally, the department's FHI proposal is complete. It addresses most of the problems that we have identified in previous block grant proposals. Nevertheless, the proposal needs further clarification and would create some problems that need to be addressed. In order to facilitate legislative review of the FHI, we recommend that prior to budget hearings, the department submit to the fiscal committees additional information that addresses the following issues:

1. ***Restrictions on Use of Funds.*** The following aspects of the proposal need clarification:

- Five counties that currently receive no categorical funding would not be required to establish FHI programs. Would other counties be required to accept and administer FHI funds?
- The proposal calls for the state to administer part of a county's allocation if the county eliminates funding for a transferred program. How would the amount to be withheld from the county's allocation be determined?

2. ***Funding Allocations.*** The following aspects of the proposal need clarification:

- How would the state handle FHI payments to counties—on a cost-reimbursement basis or using prospective payments? The approach taken would affect General Fund interest earnings.
- How, exactly, would "need" be determined for purposes of distributing the $1.7 million available as a result of state staffing reductions?
- A portion of the $5.4 million augmentation for perinatal improvement would be distributed to counties. How exactly would these funds be allocated?

We identified two problems with the department's proposal:

- Our analysis indicates that $331,000 of the state support savings identified for transfer to counties is federal Medi-Cal money that cannot be transferred as a part of a block grant.
- The remaining $1,354,000 in state support funds proposed for transfer to counties may not cover the costs of county administration, particu-

larly in the larger counties. Our analysis indicates that under the proposal, 39 counties would receive $15,000, 5 counties would receive $35,000, and the remaining 14 large counties would receive an average of $42,000 for administration. Counties will be required to develop and negotiate contracts and develop claims payment, reporting and auditing requirements for the local agencies with whom they contract. The department has not demonstrated that counties would have sufficient administrative funds to perform these tasks without having to reduce funding for services. (Under the proposal, counties could reduce family planning information and education services during first two years to fund administration. Twenty-five counties currently receive an average of $94,000 for family planning information and education services. They could reduce other services after the first two years.)

3. ***Eligibility and Service Standards.*** Current program standards applying to the categorical programs are contained in federal law and regulations, state law and regulations, and contracts with providers. The department proposes to continue federal standards and certain state standards (CHDP rules and Title 17). The department should clarify the extent to which other state program standards would be continued under the proposal.

In previous block grant proposals, we identified major problems with the lack of state-mandated eligibility and service requirements in the area of family planning services. This may or may not be a problem with the FHI proposal.

The current target populations for state-funded family planning services are women aged 15–44 whose family income falls below 180 percent of the federal poverty level and sexually active teenage women with higher family incomes. Under the proposal, counties may be able to establish their own eligibility requirements and specify the scope of services to be provided. Because family planning services may be unpopular in some areas, some counties might choose to impose restrictive eligibility requirements or reallocate funds to county administration rather than direct services. In this case, the state might experience increased Medi-Cal, welfare, and other costs associated with unwanted pregnancies.

We cannot determine the extent to which this problem exists under the FHI proposal because the department has not specified what latitude counties would have in setting their own standards for family planning services.

4. ***State Responsibilities.*** The department should clarify how it would cover its administrative costs when it is required to administer categorical programs eliminated by counties.

The department should also submit a workload analysis to support its proposed position reductions.

5. ***Reporting, Audit and Oversight Provisions.*** The proposal needs clarification in the following areas:

- Exactly what reporting will be required by counties?
- The proposal indicates that federally-required audits will be continued. What type of audits will be performed with respect to county use of state funds? How will the state monitor county compliance with state program standards and restrictions on use of funds? The county health services expenditure reports are not sufficiently detailed to allow the department to determine the degree of compliance with requirements related to expenditure of the funds, as the department proposes.

DEPARTMENT OF HEALTH SERVICES—Continued

We withhold recommendation on the proposal, pending review of information clarifying the proposal.

Perinatal Improvement Program

We recommend approval.

The budget proposes $5.4 million from the federal MCH block grant to improve and augment services for pregnant women and infants. The budget proposes to continue a $4.6 million augmentation provided during the current year. The budget-year augmentation would be used for:

1. ***Regional Perinatal Systems ($500,000).*** Chapters 331 and 1141, Statutes of 1979 (SB 776 and SB 775), encouraged the development of regional perinatal access systems. Perinatal access systems are regional organizations of perinatal service providers and related service agencies that are responsible for defining the roles of various types of providers, including the region's tertiary care center, in order to ensure that patients have access to the appropriate level of services. Regional councils provide a forum through which perinatal care providers discuss resource availability and practice standards. The funds would be used to increase the number of regional systems from five to eight.

2. ***High-Risk Infant Follow-Up ($750,000).*** This program provides home support for up to two years to infants at high risk of developmental disability.

3. ***Diabetes in Pregnancy Program ($400,000).*** This project offers (a) education and health services to diabetic women and (b) education to perinatal providers on standards of care for pregnant women with diabetes.

4. ***Prematurity Prevention Projects ($400,000).*** These projects attempt to reduce the high costs of tertiary care by preventing premature delivery.

The department currently funds two local prematurity prevention programs. The budget proposes to establish two prematurity prevention centers and eight additional local programs.

5. ***Outreach and Education ($50,000).*** The department proposes to support, in conjunction with the March of Dimes, outreach and education directed toward specific high-risk populations.

6. ***County/Community Perinatal Programs ($1,200,000).*** The department proposes to provide additional funds to county health departments for monitoring comprehensive perinatal services projects transferred to county health departments under the FHI, coordinating local perinatal resources, and overseeing the development and evaluation of providers participating in the Medi-Cal perinatal services program to be expanded under Ch 1404/84. Funding for these programs would be part of the FHI beginning January 1, 1986.

7. ***Audit Withhold ($100,000).*** State law requires that 1 percent of all federal block funds be set aside to be used for the audit of funded programs.

8. ***Perinatal Services ($2,000,000).*** Participating agencies provide prenatal care, nutrition and health education, psychosocial assessments, and counseling to low-income women. Funding for these programs would be transferred to counties under the FHI, beginning in January 1986.

The most recent federal continuing resolution containing funds for the federal maternal and child health block grant included language urging states to pay more attention to the problem of low-birthweight babies. The department's budget proposal is consistent with this federal direction. Our analysis also indicates that the proposed programs would deliver preventive services for which there is both documented need and cost-effectiveness. Consequently, we recommend that funding for the perinatal improvement program be approved as budgeted.

Adolescent Pregnancy

We recommend approval of the $3,828,000 in MCH block grant monies requested to support adolescent pregnancy programs, but recommend that the General Fund cost of $1,215,000 be deleted from the budget because the pilot projects do not yet warrant ongoing General Fund support.

The budget proposes to appropriate a total of $5,043,000 for adolescent pregnancy (AP) programs, including $4,953,000 ($1,125,000 General Fund, $3,828,000 federal MCH block grant funds) for local assistance and $90,000 (General Fund) for two positions.

These programs would be administered by the Family Health Initiative Branch. Initially, the funds would be state-administered because the projects have potential regional and/or statewide significance. Once they are developed, however, the department envisions that they will be transferred to local health departments under the FHI.

The department currently funds eight agencies to operate local AP programs, using $1.4 million in federal MCH block grant monies. The programs vary in the scope of services offered and currently serve about 6 percent of the state's target population. The Legislature attempted to expand these programs during the current year through passage of SB 1555 and AB 3225, which would have appropriated $5.1 million from the General Fund for local comprehensive adolescent pregnancy and parenting services. These bills were vetoed by the Governor.

Proposal. The department indicates that pregnant adolescents have unique problems that often result in low-birthweight infants, repeat pregnancies, and school drop-outs. The department proposes to address the special needs of this target population by:

1. Establishing pilot projects to provide case management to family units in regions with high adolescent birth rates.
2. Developing comprehensive service networks to provide medical care, psychosocial and nutritional counseling, academic and vocational programs, infant health supervision, day care, and assistance with parenting, transportation, and food stamps.
3. Developing "adolescent life options" programs that would assist low-income adolescents in understanding through exposure, training and education that early parenthood is not inevitable and that other options are available. The department cites as an example an existing project that is "using media development and evaluation as a vehicle for teen peer teams of parents, pregnant and nonpregnant members".
4. Developing an adolescent pregnancy data base to measure birth outcomes, repeat pregnancies, and school status.

The department indicates that this comprehensive approach to adolescent pregnancies will provide affected teens with an alternative to abortion and will save public funds through a reduction both in poor pregnancy outcomes resulting from inadequate prenatal care and in welfare dependency resulting from higher school drop-out rates.

Comments. Our analysis indicates that the proposal to establish

DEPARTMENT OF HEALTH SERVICES—Continued

comprehensive adolescent pregnancy programs has merit. The department's data indicate that adolescent mothers 18 years of age or under have a higher rate of low-birthweight infants than other women. Providing, prenatal care to these mothers would reduce the incidence of low-birthweight infants and should therefore reduce necessary medical costs as well.

Also, data available from the currently funded Teenage Pregnancy and Parenting program (TAPP) in San Francisco indicate that school drop-out rates may be reduced through comprehensive case management. Reductions in drop-outs would result in savings in AFDC costs.

The AP programs appear to be consistent with the department's Perinata Improvement proposal. Also, by requiring local programs to make maximum use of resources already existing in the community, the department will ensure coordination and increase the effectiveness of funds expended.

Problems With the Department's Proposal. We identified three problems with the department's proposal:

1. The department bases its proposal on data from the TAPP, a model program with well-developed resources already existing in the community. Comprehensive case management for pregnant adolescents may be relatively easy to achieve under these conditions but may not be representative of the experiences that other communities with fewer developed resources would encounter.

TAPP and one other project have collected information needed to assess whether the programs have an effect on the unique problems of adolescent pregnancy, such as school status, number of repeat pregnancies, and general health of the children. The department has collected medical and demographic data from the other projects. It has not, however, conducted a comprehensive evaluation of any of the projects.

2. It is unclear exactly how the department would ensure that teen women with a high pregnancy risk would be targeted and how the proposed "life options" program differs from the information and education projects funded by the Office of Family Planning. While a population of pregnant teens can be easily targeted, the population to be targeted by a "life options" program seems much less defined.

3. The department estimates the average cost of its AP program at $5 million by using TAPP's cost-per-client of $1,200 and projecting that 2,100 clients will be served for two years each. The department uses TAPP's figures because the TAPP program is the most comprehensive. Our analysis indicates, however, that TAPP's actual cost per case-managed client is $1,097. Therefore, the AP program's cost for serving the individuals envisioned totals $4,607,000, or close to $400,000 less than what is proposed in the budget.

While the AP program proposed by the department has merit, we do not believe General Fund support ($1,215,000) for the program is warranted at this time because (1) there is no way of knowing at this time whether other regions will be able to emulate the TAPP program's success, and (2) the "life options" program appears to overlap with family planning information and education programs, and the target population for this program has not been well defined. In addition, the program appears to be overbudgeted by $400,000.

In sum, while the proposal to establish AP programs as pilot projects in order to demonstrate replicability in different regions is worthwhile and merits one-time federal funding, it does not yet merit ongoing General

Fund support. We therefore recommend that the $3,828,000 in federal MCH block monies be approved. This amount would fund approximately six of the eight programs currently proposed, as well as the implementation of a data base that will measure the effectiveness of all AP programs. We recommend the deletion of $1,215,000 in General Fund support of these programs until such time as the department can better measure their effectiveness and replicability. The requested two new positions should be funded from the proposed federal funds.

Federal Maternal and Child Health Block Grant

The budget proposes expenditures of $32,680,000 from the federal Maternal and Child Health (MCH) block grant in 1985–86. Of this amount, $4,704,000 is budgeted for California Children's Services (CCS). The remainder will be spent on state MCH programs and the Family Health Initiative (FHI) program.

Table 15 displays estimated current-year and proposed budget-year appropriations from MCH block grant funds. The changes shown in the table result from (1) including funds for MCH programs in the FHI program during the second half of 1985–86 and (2) augmentations for perinatal services ($5.4 million) and adolescent pregnancy ($3.8 million), which are budgeted in the FHI.

Table 15
Department of Health Services
Federal Maternal and Child Health (MCH) Block Grant
Allocation of Funds
1984–85 and 1985–86
(dollars in thousands)

	Estimated 1984–85	*Proposed 1985–86*	*Change 1985–86 over 1984–85*	
			Amount	*Percent*
Funds available				
Carry-over from prior fiscal year	$11,481	$10,532	–$949	–8.3%
Block grant award	22,447 [a]	23,415 [a]	968	4.3
Total available	$33,928	$33,947	$19	0.1%
Expenditures				
Support	$1,738	$1,483	–$255	–14.7%
Local assistance				
MCH programs	16,954	8,477	–8,477	–50.0
Family health initiative program	—	18,016	18,016	NA
California children's services	4,704	4,704	—	—
Total expenditures	$23,396	$32,680	$9,284	39.7%
Carry-over to next fiscal year	10,532	1,267	–9,265	–88.0

[a] Based on one quarter of the prior year grant award and three quarters of the current-year grant award.

The table also shows that the amount of carry-over funds available in 1986–87—$1,267,000—will be significantly less than the $10–11 million of carry-over funds available in both the current and budget years. Unless additional carry-over funds become available or block grant funding is increased, there will be a shortfall of approximately $8 million in the amount needed to maintain the existing level of expenditures during

DEPARTMENT OF HEALTH SERVICES—Continued

1986–87. Under these circumstances, the Legislature would be required to make the choice between reducing programs receiving block grant funds or providing General Fund support.

Other Community Health Issues

Genetic Disease

The Genetic Disease Section administers programs that are designed to reduce or prevent genetic disease through early detection, consultation with professionals, and counseling.

The budget proposes department support expenditures of $12,544,000 for the Genetic Disease program in 1985–86, which is an increase of $5,000 over estimated current-year expenditures. Local assistance is proposed at $1,679,000, an increase of $65,000, or 4 percent, above current-year estimated expenditures.

We recommend approval of the following proposals, which are not discussed elsewhere in this analysis:

- $80,000 to permanently establish two positions (an accounting clerk and a data processing technician) and continue for another year one position (accounting clerk) to eliminate a revenue collection backlog and resolve billing disputes.
- $63,000 for a contract to identify and counsel women of childbearing age that were diagnosed with phenylketonuria (PKU). These women have a high risk of having a child with severe mental and physical handicaps, unless they are placed on a low phenylalanine diet before or during the early stages of pregnancy.

Neural Tube Defects Program

Background. In response to interest from professional and lay groups, the Legislature authorized the department to develop regulations for a demonstration program providing prenatal screening for neural tube defects. Neural tube defects are birth defects that cause damage to the brain or spinal cord. The most common neural tube defect is spina bifida (open spine). The demonstration program is designed to ensure the quality of laboratory testing, accuracy with which results are interpreted, timeliness, and availability of all necessary counseling and diagnostic services.

The 1982 Budget Act included funds to support six positions for the purpose of developing regulations for the Neural Tube Defects program. Due to the Governor's hiring freeze, only one of the six positions was filled, and no regulations for the program were developed. The 1983 Budget Act again provided funds for the program and permanently established the six positions. In Ch 323/83, the trailer bill to the 1983 Budget Act, the Legislature mandated that the department promulgate regulations for the program by June 30, 1984. As of February 2, 1985, the regulations had not been promulgated. The demonstration project cannot begin until the regulations are completed.

The 1984 Budget Act included funds for 24.5 positions for this program, to be phased in throughout the current year. Of the 24.5 positions, 14.5 were scheduled to be filled by January 1, 1985. At the time this analysis was prepared, 4 of 14.5 positions scheduled to be filled were vacant.

Budget Proposal. The budget does not propose funds for full implementation of the program. Instead, it provides only for development and start-up costs.

The department is currently conducting a pilot project to refine program procedures and is negotiating contracts to fully implement the program in June 1985. Until these activities are complete, the department will not be able to estimate ongoing program costs. The department estimates that these activities will be completed by April 1, 1985, and that a budget proposal will be submitted in the spring.

CHDP Claims Processing Contract

We withhold recommendation on the proposal to contract with Computer Sciences Corporation (CSC) for claims processing services under the Child Health and Disability Prevention program, pending receipt of more specific information on the project's estimated costs. We further recommend that the Department of Finance verify that the proposed contract conforms with the provisions of Government Code Section 19130.

The department proposes to contract with the Computer Sciences Corporation (CSC), the current Medi-Cal fiscal intermediary, for claims processing services under the Child Health and Disability Prevention (CHDP) program. Currently, provider claims for reimbursement of services under this program are handled by the department's Child Health Information and Claiming (CHIC) Unit.

Instead of issuing a new contract for the project, the department proposes to amend its existing contract with CSC to include the processing of CHDP claims. The budget includes $1,038,000 ($260,000 General Fund) for this purpose. To reflect the proposed transfer of this responsibility, the department proposes to reduce 36 positions (30 in the Community Health Services Division and 6 in the Administration Division) and other costs associated with this claims processing function, for a savings of $990,000 ($345,000 General Fund). Therefore, the budget reflects a net savings of $85,000 to the General Fund and a net cost of $133,000 to the federal government.

Our analysis of the proposal indicates that:

1. ***The cost-effectiveness of the proposal cannot be assessed until more realistic cost estimates are available.*** The department currently is negotiating with CSC to reach agreement on the costs of the contract amendment. The department cannot estimate the total cost of the contract or what portion of the cost is one-time start-up cost and what portion is ongoing operating cost. Until the negotiations with CSC are complete, we have no basis on which to compare the development and operating costs of the proposal with the expected savings.

2. ***The department has not identified the actual state costs expected to be saved if CSC undertakes CHDP claims processing.*** The proposal identifies the *budgeted* savings in personal services and operating expense, but these amounts may vary from the *actual* amounts spent for these functions. For example, the budget includes $350,000 for key-data entry services from the Franchise Tax Board, but the department cannot identify the actual costs expended for these services.

3. ***The proposal does not appear to conform with several of the requirements specified in Section 19130 of the Government Code concerning personal services contracts not specifically authorized for delegation to independent contractors.*** Specifically, the proposal does not call for a publicized, competitive bidding process. In addition, the department has not determined whether the contractor's wages are at the industry's level and do not significantly undercut state pay rates, as required by Section 19130.

DEPARTMENT OF HEALTH SERVICES—Continued

Lacking estimates of the costs and savings attributable to this project, we withhold recommendation on the proposal. A thorough analysis of the proposal by the Legislature will be possible only after the department has provided information on: (1) the development costs, (2) operating costs for the budget year and subsequent years, and (3) actual savings in state costs due to the transfer of the claims processing function. We recommend that the department submit this information to the fiscal committees prior to budget hearings. We further recommend that the Department of Finance verify that the proposal conforms to the provisions of Section 19130 of the Government Code concerning personal services contracts.

California Children's Services

We withhold recommendation on the proposed budget for California Children's Services (CCS), pending review of the revised estimate available in May.

The budget proposes $56,470,000 from all funds for CCS local assistance in 1985–86, which is approximately $7,591,000, or 16 percent, higher than estimated current-year expenditures of $48,873,000.

The amount shown in the budget for CCS in the current year is the amount appropriated in the 1984 Budget Act, not the estimated expenditures. The department estimates it will have a current-year surplus of $1,294,000 (all General Fund). This reduction in current-year expenditures results from a projected decrease in utilization within Los Angeles County.

The proposed increase in local assistance funding for 1985–86 consists of:

- $4,487,000 to provide a 7.3 percent adjustment in funding for treatment services, resulting from inflation and increased utilization of services.
- $1,142,000 to provide for the combined impact of new legislation authorizing bone marrow transplants and in-home care.
- $1,962,000 to provide a cost-of-living adjustment of 4 percent.

Our analysis indicates that the estimates of utilization and costs may change. We therefore withhold recommendation on the proposed CCS budget, pending review of the revised estimates in May 1985.

Reports on CCS Utilization Review, Family Repayment, and Hospital Contracting

We recommend that the California Medical Assistance Commission provide the fiscal committees, prior to budget hearings, with an estimate of the costs involved in revising current California Children's Services (CCS) data as necessary.

1. ***Utilization Review.*** The *Supplemental Report of the 1984 Budget Act* required the department to report to the Legislature by October 1, 1984, on alternatives for increasing hospital inpatient utilization review for all CCS case-managed clients. We received the department's report on utilization review in early February 1985, and did not have sufficient time to review it prior to completing this analysis.

2. ***Repayment.*** The *Supplemental Report of the 1983 Budget Act* required the department to report by August 1, 1983, on alternatives for a new family repayment system for CCS and the Genetically Handicapped Persons' program (GHPP). The department's report, submitted in April

1984, recommended that the current method of CCS repayment be changed to one of two suggested "annual enrollment fees." We currently are examining these two recommended alternatives.

3. ***Contracting.*** In our *Analysis of the 1984–85 Budget Bill,* we recommended that the California Medical Assistance Commission report to the Legislature on the feasibility and potential effects of implementing a hospital contracting program for CCS hospital inpatients. The CMAC report, submitted in October 1984, discussed three options: CCS contracting in conjunction with Medi-Cal, CCS contracting separate from Medi-Cal, and CCS contracting for certain specialized tertiary procedures. CMAC concluded that the first two options did not represent feasible options for achieving significant cost savings. Specifically, it concluded that:

- Contracting in conjunction with the Medi-Cal program might jeopardize Medi-Cal's cost savings.
- CCS patients account for approximately 1 percent of most hospitals' revenue, leaving the state with relatively little bargaining power if it had to contract for services under the program separately. In addition, because many CCS patients are chronically ill, the increased travel times that might result from contracting could impose significant burdens on the families involved.

The CMAC indicates that contracting for specific tertiary procedures might improve the quality of care *and* result in cost savings, without imposing an undue burden on families. One area that might lend itself to this more-limited approach to contracting is procedures involving the heart. CCS data indicate that in 1984 the 21 approved cardiac centers averaged 54 open-heart procedures and 45 diagnostic procedures, including heart catheterizations. A panel of cardiologists and surgeons recommended in 1981 that centers diagnosing and treating congenital heart disease perform at least 75 open-heart surgeries and 150 catheterizations per year. These recommendations were founded on research findings that demonstrated a relationship between improved outcomes (such as reduced lengths of stay) and higher volume for these services.

The greater travel times that would result from contracting for these types of specialized services would be less burdensome to families than increased travel times required for treatment of chronic conditions.

The CMAC could not estimate the potential savings that might result from contracting for specialized tertiary inpatient services because (a) CCS patient-stay data currently are coded by initial diagnosis and not by the type of services received and (b) the costs of inpatient and outpatient ancillary services are not separated. In December 1983, the CMAC estimated that it could contract to revise the CCS data as necessary for approximately $20,000.

We believe that it would be beneficial for CMAC to further analyze inpatient costs and the potential for contracting. This would enable the Legislature to continue searching for ways of making the provision of services under this program more cost effective. With this in mind, we recommend that CMAC provide the fiscal committees, prior to budget hearings, with an updated estimate of the costs required to determine for CCS (a) the type of inpatient services provided, by institution and (b) a separation of ancillary services for inpatient and outpatient status.

DEPARTMENT OF HEALTH SERVICES—Continued

B. COUNTY HEALTH SERVICES

Transfer Proposal

The budget proposes to consolidate three programs providing local assistance to local health jurisdictions into one program with funding of approximately $890 million. Full implementation of this consolidation, which requires legislative action, would occur on January 1, 1986. As part of the consolidation, the budget proposes to delete from the Office of County Health Services 19.5 positions—45 percent of the 43 positions currently authorized for the office. These position reductions would result in a savings to the General Fund of $440,000 in 1985–86 and $926,000 in 1986–87.

The budget proposes to consolidate the following local assistance programs:

AB 8 County Health Services. Assembly Bill 8 (Ch. 282/79) created a new program of fiscal relief to local jurisdictions as a means of replacing the property tax revenues lost by local government as a result of Proposition 13 (1978). A portion of this fiscal relief is appropriated to the County Health Services (CHS) Fund for distribution by the department to support local health services. In order to receive a CHS allocation, local jurisdictions must match state funds with county funds, as specified. The current-year local assistance appropriation for CHS is $384 million.

Medically Indigent Services (MIS) Program. The 1982 Medi-Cal reform legislation eliminated the medically indigent adult (MIA) category from Medi-Cal and transferred responsibility for this population to the counties. Counties with populations exceeding 300,000 must administer their own programs. Counties with a population under 300,000 may choose to contract with the state for administering the program. The Legislature established subventions to assist counties in providing services to this population. The current-year appropriation for MIS is $514 million.

State Subvention. Section 1141 of the Health and Safety Code requires that every county receive a state subvention for public health equal to 60 cents per capita or $16,000, whichever is less. A county is eligible to receive this money if it states in its CHS plan that it has met the minimum standards for local health administration required by Section 1130 of the Health and Safety Code and set forth in regulations. The current-year appropriation for the state subvention is $731,000.

County Health Services Transfer

Under the proposal, programmatic and fiscal requirements associated with the three current funding mechanisms would be consolidated. Counties with populations of less than 300,000, however, could continue to contract with the state for administration of their MIS programs through the County Medical Services program.

To receive funds under the proposal, counties would have to (1) submit a CHS plan and budget for department review and approval and (2) provide local matching funds. County allocations and matching requirements would be adjusted yearly, based on projections made by the Department of Finance.

The Department of Health Services would review expenditure reports submitted annually by local health jurisdictions in order to ensure that these jurisdictions satisfied maintenance-of-effort requirements. The department would assume that counties will adhere to current principles and definitions of allowable expenditures. Under the proposal, the state would not recoup unspent or misspent funds from counties.

The proposal would eliminate:

1. All legislative reports and the MIS data reporting system authorized by the Legislature in the 1984 Budget Act.
2. One-time county public health projects and capital outlay assistance, which currently are funded by recouped funds.
3. 60/40 hearings. Currently, counties may reduce their required 50 percent county match of CHS funds to 40 percent by holding a hearing to demonstrate that reductions in net county costs are not detrimental to health needs in the county.

More Information Needed

We withhold recommendation on the county health services transfer proposal, pending receipt of the proposed implementing legislation and additional information regarding the proposal.

Our review of the transfer initiative indicates that some components of the proposal have merit. For example, under the proposal:

- The current financial and programmatic requirements that differ for each of the three funds would be consolidated and standardized, and the need for separate state and local accounting systems and administration would be reduced. Under current procedures, the CHS plans and budgets are reviewed separately by both AB 8 and MIS staff, and monies funding similar services are distributed to local jurisdictions utilizing three separate payment schedules. On the local level, this tends to reduce the amount of money available for services.
- The 60/40 hearings, which tend to consume state and local administrative resources without yielding commensurate benefits, would be eliminated.
- Recoupment funding for one-time public health projects and capital expenditures would be eliminated. Funding these activities through recoupments has resulted in administrative problems. We have recommended in past years that these activities compete for annual appropriations from the General Fund.

We cannot, however, recommend approval of the county health services transfer at this time for three reasons: (1) the proposed legislation necessary to implement the program was not available at the time this analysis was prepared, (2) the department was unable to answer specific questions or provide information that the Legislature needs in order to evaluate this proposal, and (3) our review indicated that the proposal would result in significant problems, including (a) the potential loss of interest earnings to the General Fund, (b) minimal and unsatisfactory audit and reporting requirements necessary for legislative deliberations and decision-making, and (c) weakened program and maintenance-of-effort requirements.

In order to facilitate legislative review of the county health services transfer, we recommend that prior to budget hearings, the department submit to the fiscal committees, additional information that clarifies the proposal and addresses the problems which we have identified. Specifically, the department should provide information on the following matters.

1. ***Program Requirements.*** The initiative proposes to consolidate the

DEPARTMENT OF HEALTH SERVICES—Continued

AB 8, MIS, and state subvention programs and to standardize programmatic and fiscal requirements. The department was unable to tell us what restrictions would be placed on the expenditure of funds. For example, it is not clear whether expenditures on mental health services, which are allowable under the MIS program but not under CHS, would be allowed under the transfer program. It is also not clear if the requirement that counties adhere to standards for local health administration would be continued.

The department would assume that local use of CHS funds will be consistent with the existing principles and definitions of allowable expenditures. The department should explain how it would standardize programmatic and fiscal requirements and—at the same time—retain principles and definitions of allowable expenditures applying to the existing programs.

2. ***Maintenance of Effort.*** The transfer proposal requires counties to match state funds. The intent of the matching provisions apparently is to require counties to maintain their level of effort in funding health services.

It is not clear how requiring a county to match state funds will accomplish this objective. The department should explain what will prevent counties from using their matching funds to pay for health care expenditures that are not permitted under current CHS and MIS requirements.

In addition, the proposal does not specify what level of match would be required of the counties. The proposal states only that the county's match will be determined and adjusted annually by the Department of Finance. The basis for these adjustments has not been specified.

3. ***Potential Loss of Interest Earnings.*** The proposal indicates that one consolidated payment will be made to counties to replace the current payments that are distributed monthly and quarterly. By moving to an annual payment, the General Fund could lose a significant amount of interest earnings. The department was unable to tell us when during the year it would make the annual payments. Our analysis indicates that *if payment were made in November, the state General Fund could lose approximately $21.1 million in interest earnings.* It could lose approximately $6.7 million if the one payment were made in January. We believe that monthly payments to counties would be appropriate for a program of this size.

4. ***Audit and Oversight Provisions.*** The proposal states that counties will submit plans and budgets at the beginning of the fiscal year and expenditure reports at the end of each fiscal year. The plans and budgets will be subject to department review and approval. The department has not specified the purpose of the review nor the criteria for approval.

The expenditure reports apparently would be used to ensure that local jurisdictions meet the maintenance-of-effort requirements. It is unclear exactly what the requirements are and what criteria would be used to determine if reported expenditures were in compliance with these requirements. In addition, it is unclear what would happen to monies identified as having been misspent or unspent. Presumably, the counties would keep the funds because the proposal eliminates recoupment activities. If the funds remain with the county regardless of whether or not they are mispent or unspent, the department should explain why it would be necessary to review expenditure reports. It is also unclear how the state could be assured that the information contained in the expenditure reports is accurate.

The department proposes to eliminate all legislatively mandated reports, as well as the MIS data system that the Legislature directed the department to implement in the 1984 Budget Act. The budget change proposal states that eliminating the department's data collection and reporting capabilities could result in the state not having adequate information available to assess the need for additional funding. The department proposes to institute on-site audits should this problem arise. These audits, however, would not allow the state to adjust funding levels on a timely basis.

5. ***Recoupments.*** The department proposes to eliminate recoupments in the future. It is not clear, however, whether the department still intends to recoup unspent CHS and MIS funds appropriated in 1983–84 and earlier years. Chapter 1556, Statutes of 1984 (AB 830), requires that recouped funds from 1981–82, 1982–83, and 1983–84 appropriations be deposited into the County Health Facilities Sinking Fund to assist counties in amortizing capital outlay expenditures.

6. ***State Workload and Responsibilities.*** The proposal indicates that by streamlining requirements and payment systems and eliminating various functions currently performed, the department would no longer need 19.5 positions, making possible half-year savings of $463,000 during the budget year and full-year savings of $926,000 during 1986–87.

Without additional details on the program requirements and restrictions that would apply to funds provided under the consolidated program, we are unable to assess the appropriateness of the proposed position reductions. Obviously, staffing requirements could vary significantly, depending on (a) the criteria used to approve the plans and budgets and (b) the extent to which the expenditure reports will be reviewed. The department should submit a detailed analysis that identifies existing workload and workload under the proposal.

Other County Health Issues

County Medical Services Program Shortfall

We withhold recommendation on the department's request for $3 million to offset a projected deficit in the County Medical Services Program (CMSP) in 1985–86, pending receipt of additional information. We further recommend that prior to budget hearings the department submit data needed to evaluate the feasibility of contracting for tertiary services.

Counties having a population of less than 300,000 may contract with the state for the administration of their medically indigent services (MIS) programs. Thirty of the 43 eligible counties currently contract with the CMSP under this option.

The budget requests a $3 million augmentation for the CMSP because expenditures under the program are projected to exceed funds available for 1985–86 from MIS allocations to the participating counties and interest earnings.

Current-Year Deficit

The department indicates that program expenditures will exceed the MIS allocations to participating counties plus available interest earnings by $3,312,000, or 8.9 percent, in the current year. This deficit will require a deficiency appropriation of $498,000. The remaining deficit can be covered by reserves carried over from 1983–84. The department attributes the program's deficit to several factors:

1. ***Medi-Cal's Cost-of-Living Adjustments (COLAs).*** The CMSP

DEPARTMENT OF HEALTH SERVICES—Continued

"piggybacks" on the Medi-Cal system for administration. Consequently, the CMSP pays providers according to Medi-Cal reimbursement rates and determines eligibility according to Medi-Cal income standards. Medi-Cal COLAs however, have been greater than the COLAs granted on MIS allocations. In the current year, the MIS program received a 2 percent COLA. Comparable Medi-Cal COLAs were:

- 10.4 percent for hospital inpatient services. (These increases are based on projected increases in non-contracting hospital payment rates under Medi-Cal. The CMSP cannot utilize negotiated contract rates under current procedures.) Hospital payments represent 76 percent of the CMSP medical services budget.
- 7.7 percent for most other providers.
- 5.6 percent for beneficiary COLAs.

The department estimates that the discrepancy between the CMSP COLA and provider COLAs cost the program approximately $1.8 million in the current year. The discrepancy in beneficiary COLAs will cost the program $203,000.

2. *Addition of Benefits.* Since its inception, the CMSP has offered a uniform package of benefits substantially less than those offered by Medi-Cal. After numerous beneficiary and provider complaints and threats of litigation, the Small County Advisory Committee (SCAC), which advises the department on CMSP matters, requested the department to add five benefits to the CMSP: limited dental and medical transportation, physical therapy services, prosthetics and orthotics, and durable medical equipment.

The department added these benefits in July 1984. At that time, the department forecasted a surplus of $2.9 million in the CMSP Account at the end of the current year. The department estimates that the cost of this benefit package is $333,000 in 1984–85. The CMSP also added nonsteroidal anti-inflammatory drugs as a benefit, to conform with a change in the Medi-Cal drug formulary, at a cost of $79,200 in 1984–85, making the total estimated cost of these additional benefits $412,500 in 1984–85.

3. *Eligibility Determination Cost Increases.* The department projected that eligibility determination expenditures would exceed the CMSP's initial eligibility allocation by $367,000, or 13 percent, in 1984–85. The department had set the eligibility allocation at 8.22 percent of the total CMSP allocation, consistent with the statutory requirement applying to the program's first six months of operation.

The department attributes the overrun in eligibility expenditures to two main factors. First, the number of CMSP eligibles increased by 2,920, or 29 percent, between October 1983 and October 1984. Second, Medi-Cal allowed counties to bill the state for salary increases granted to eligibility workers of up to 3 percent.

As a result, the department has had to increase the allocation for eligibility determinations to 9.26 percent of the total amount available, and has instituted a cost control plan to reimburse expenditures remaining within a determined unit cost.

Budget Proposal. The $3 million augmentation represents a 7.7 percent increase above the funds available from the MIS allocations to participating counties for 1985–86 and interest earnings. In total, the funds available for CMSP in 1985–86 will be 12 percent higher than the funds available through MIS allocations and interest earnings in 1984–85 and 2.8

percent higher than actual 1984–85 expenditures.

Our analysis indicates that the program may need *more than $3 million* to break even in 1985–86. This is because the increase in costs is likely to be greater than the 2.8 percent increase assumed in the budget, particularly for hospital services. The Medi-Cal program projects that hospital costs in noncontracting hospitals—the basis for CMSP payments—will increase by 10.7 percent in 1985–86. If hospital costs rise as expected in 1984–85 and 1985–86, the CMSP could incur additional costs of $2.2 million.

Central Question Facing the Legislature. Initially, the counties participating in the CMSP were expected to assume the collective risk for program cost overruns, consistent with the requirements placed on each large county after the MIA transfer. Current law places the state at risk for program cost overruns until 1988–89, when the counties will assume this risk. Section 16709 of the Welfare and Institutions Code authorizes the department, in consultation with the counties, to revise CMSP eligibility criteria, benefits, and reimbursement rates in order to avoid overruns. The section further specifies that "the counties and the department shall work collectively to ensure that expenditures do not exceed the funds available in the Program Account and may adjust eligibility and benefit criteria and payments accordingly."

The central question facing the Legislature with respect to the proposed augmentation is: should the department be required to revise CMSP benefits, eligibility criteria, or payment levels in order to stay within available funds, consistent with the requirements imposed on large counties? Put another way: are the reductions in services that would result from program revisions so unacceptable that the Legislature is willing to establish different standards for small and large counties?

Options for Savings. We believe that the most promising opportunity for cost reductions in this program is in the area of hospital reimbursement methods. Other strategies for reducing costs either (1) are unattractive, due to the impact they would have on services or (2) would not produce a significant reduction.

For example:

1. ***Reducing Benefits.*** The program's ability to reduce benefits is limited because 76 percent of the program's medical service costs are expended on inpatient care. The CMSP utilizes Medi-Cal's system of prior authorization to control the level and type of services provided. The current scope of benefits is limited, and further restrictions on the less expensive forms of treatment may result in greater utilization of more expensive services.

2. ***Restricting Eligibility.*** We believe significant reductions in costs would be difficult to achieve by restricting eligibility. Section 16704 of the Welfare and Institutions Code prohibits counties from denying eligibility for county MIS programs (including CMSP) to individuals who meet Medi-Cal income and resource criteria. This provision becomes inoperative on June 30, 1985. Thus, if the Legislature wanted to reduce CMSP costs by reducing the number of eligibles, this statute should not be extended.

3. ***Reducing Eligibility Determination Costs.*** County eligibility determination costs exceeded the initial amount allocated for this task by approximately $367,000, or 13 percent, in the current year. In response to this, the department increased the allocation and instituted an eligibility cost control plan that provides for (a) reimbursing counties on the basis of a set amount per workload unit, with counties at risk for costs above that cost-per-unit level and (b) recoupment of CMSP eligibility funds that

DEPARTMENT OF HEALTH SERVICES—Continued

exceed the agreed-upon cost per unit for redistribution to the smallest counties that have significantly higher costs for eligibility administration.

We believe that this is a reasonable plan for controlling costs. The $42.73 per workload figure for CMSP compares favorably with the $65.42 per workload unit reimbursed by Medi-Cal in the majority of the CMSP counties. The Medi-Cal program also recognizes the need for a higher support ratio in the very small counties. Our analysis indicates, however, that significant additional reductions in the program's eligibility determination costs are not feasible.

4. ***Reducing Provider Rates.*** Across-the-board reductions do not appear feasible. When the CMSP considered reimbursing all providers at 85 percent of Medi-Cal's rates, many providers refused to participate, which exacerbated access problems among CMSP counties that are typically rural and medically underserved.

For inpatient services, however, hospital contracting presents some opportunity for cost reductions. In a report to the Legislature concerning contracting for CMSP inpatient services, the California Medical Assistance Commission (CMAC) concluded that (a) including CMSP beneficiaries as part of Medi-Cal contracts would have a detrimental effect on Medi-Cal negotiated rates and (b) negotiating separately for CMSP beneficiaries is not feasible, in view of the small number of CMSP beneficiaries and the lack of competition within rural areas. The CMAC was not able to evaluate potential savings from negotiating separate CMSP rates for tertiary services, due to a lack of data. The department indicates that the impact of contracting for tertiary services on beneficiary access might be small because tertiary procedures already require significant travel times. A potential increase in travel times is of less concern than it would be for primary- or secondary-level treatment.

In order to determine the feasibility of negotiating CMSP rates for specific tertiary procedures, the CMAC requires data on (1) how many CMSP beneficiaries from which counties currently are being served by which institutions, (2) the total amount of CMSP funds being spent on inpatient care at each institution, and (3) paid claims data for both inpatient and physician care, broken out by diagnostic groupings.

Recommendation. It appears that the CMSP has exercised reasonable care in controlling its costs. We were unable to identify any methods for reducing costs in the short term that would not have significant adverse impacts on services. Beyond the short term, however, negotiating CMSP rates for specific tertiary services appears to be feasible. This option for controlling costs would not appear to have a significant adverse effect on services, the number of eligibles, or access to care. We therefore recommend that prior to budget hearings, the department provide the data that the CMAC needs to complete its evaluation of the feasibility on contracting for tertiary services.

We withhold recommendation on the $3 million requested for the CMSP because more recent data on cost trends will be available in the May expenditure estimates.

Capital Financing of County Health Facilities

Currently, there are two programs for financing capital improvements at county health facilities. The Local Health Capital Expenditure Account (LHCEA) is administered by the Office of County Health Services. The County Health Facilities Sinking Fund (CHFSF) is administered by the California Health Facilities Authority.

Local Health Capital Expenditure Account (LHCEA). This program provides grants and loans for capital outlay expenditures at county health facilities. The account received an initial appropriation of $25 million in 1981. Beginning in 1983–84, the account received a portion of unspent county health services funds recouped from the counties. This source of funds will be discontinued in the current year, due to passage of Ch 1556/84 (AB 830), which provides that recouped funds shall be transferred instead to the CHFSF.

The budget shows expenditures of $18,162,000 in the current year from the LHCEA for county capital outlay projects ($17,942,000) and state staff to administer the funds ($220,000). The budget proposes an appropriation of $166,000 in 1985–86 for staff to monitor the projects funded in the current year. According to the budget, no funds will be available to fund additional capital outlay projects in 1985–86.

County Health Facilities Sinking Fund (CHFSF). Chapter 1556 created the CHFSF in order to assist counties in financing 50 percent of the amortization costs involving county health capital projects. Chapter 1556 requires the Controller to deposit in the fund (1) unexpended AB 8 county health services funds from appropriations made beginning in 1981–82 and (2) $10 million in tidelands oil revenues. The budget estimates that $10 million in unexpended county health services funds will be transferred to the CHFSF in the current year, creating a fund balance of $20 million. We believe that on the basis of this $20 million, the CHFSF should be able to earn approximately $2.1 million per year in interest and thereby assist counties in financing a total of approximately $4.2 million in amortization costs per year.

The administration has identified problems with the transfer provisions of Chapter 1556. Consequently, we are unable to determine exactly how much money will be deposited into the CHFSF. First, Section 6217 of the Public Resources Code requires that tidelands oil revenues be transferred into the SAFCO after all other allocations from those revenues have been made. Legislation is needed to allow the $10 million to be transferred from the SAFCO to the CHFSF. The budget indicates that the administration will support enactment of legislation to allow the transfer from the SAFCO.

Second, the unexpended balance from the county health services appropriation for 1981–82 has already been transferred to the Local Health Capital Expenditure Account. Legislation will be required before this money can be transferred to the CHFSF.

Third, Chapter 1556 appears to require transfer of funds to the CHFSF that are recouped from counties on a preliminary basis pending final expenditure reports. This could create problems if any of the funds must be returned to the counties based on final expenditure reports submitted one year later.

The budget proposes to delete all recoupment activities as part of the county health services transfer proposal. Consequently, under the budget proposal, no additional funds would be deposited in the CHFSF.

Funding for Small Capital Projects

In the past, the California Health Facilities Authority has utilized conventional methods of issuing, selling, and insuring bonds to assure a high rating for the bonds.

The authority informs us that under conventional methods, it is unlikely

DEPARTMENT OF HEALTH SERVICES—Continued

that small projects requiring less than $1 million would be funded. Our analysis indicates that this would effectively exclude from the program the majority of county health facility projects needing capital financing. Of the 90 county applications for funds received by the department during the initial LHCEA funding cycle in 1981, 86, or 96 percent, were for projects costing less than $1 million. Furthermore, we recently surveyed all 58 counties, in conjunction with the California Association of Public Hospitals, in order to determine the counties' capital needs. A preliminary analysis of the information received from 15 counties indicates that 40, or 56 percent, of 72 projects identified by the counties would cost less than $1 million.

The Legislature has two options for providing funds to small projects through the current programs. First, it could continue to allocate a portion of the funds through the LHCEA, instead of the CHFSF. Second, it could direct the authority to issue and insure bonds on a pool basis.

C. RURAL HEALTH SERVICES

County Cash-Out

We recommend that $122,000 be transferred from the department's support budget to local assistance to correct a technical miscalculation.

The contract counties program provides public health services in those counties with populations of 40,000 or less that choose to contract with the state. Those counties with populations exceeding 40,000 must sever their contract with the state and become "independent." When a county becomes independent, Section 1157.5 of the Health and Safety Code requires that the state transfer funds equal to the value of the services previously provided to the county from department support to the county's health services allocation under AB 8. To receive these funds, the county must match $3 of state funds with $1 of county funds.

Lake and Siskiyou Counties have exceeded the 40,000 population limit and must become independent in 1985–86. Accordingly, the budget proposes to transfer $422,000, which is the estimated value of staff and funds provided to the counties, from department support to local assistance.

Our analysis indicates, however, that the department underestimated the value of Lake County's contract by $122,000. We therefore recommend that this additional $122,000 be transferred from department support to county health services local assistance.

Farmworker Health Insurance

We recommend deletion of $2,052,000 proposed for the farmworker health insurance pilot project because the department does not have a plan for spending the funds.

The budget proposes $2,052,000 from the General Fund for a pilot project to purchase health insurance for farmworkers. This is an increase of $1,539,000 above the current-year appropriation of $513,000.

The proposal submitted during hearings on the current-year budget outlined a project that would involve the local, state, and federal governments; growers; and farmworker employees in a cooperative plan for financing farmworker health insurance premiums. Specifically, the outline proposed that government contribute 60 percent of the project's cost, growers 25 percent, and farmworker employees 15 percent.

The Legislature appropriated $513,000, or one-third of the government's share of annual project costs, in 1984–85, and specified in Budget Bill language that the department could expend the funds only after it (1) made the budget public and conducted a public hearing on the project in the project area and (2) notified the Rural Health Advisory Committee and the Seasonal Agricultural Workers' Advisory Committee of the hearing date. The Legislature further specified that (1) the project shall serve a minimum of 5,000 people through a capitation model in a specific five-county region, (2) primary care clinics in the area may participate in the program, (3) only growers with 15 or fewer employees are eligible to participate, and (4) the department may not allocate other state or federal funds to the project. The Legislature prohibited the department or its subcontractor from applying for federal public health clinic monies.

Analyst's Comments. The department has not been able to justify the amount proposed in the budget for the farmworker health insurance pilot project. Specifically:

1. The department has neither a project budget nor a work plan with time-specific objectives. The $513,000 allocated in the current year has not yet been spent; and, at the time this analysis was prepared, the department had no plans to issue a request for proposals. Moreover, the department was unable to answer even the most elementary questions about the project, such as (a) which providers will deliver care, (b) how financial risk will be addressed, (c) how the project will market the plan to growers, farmworkers, and associations, (d) whether seasonal or migratory farmworkers will be eligible and, if so, how, (e) what projected enrollment is, (f) how turnover in enrollment may affect costs, (g) how the budget was compiled and sharing ratios decided, (h) whether the project will be supported by private foundations and how this support will be reflected in the project's budget, (i) how the department will ensure the Legislature that cost-sharing requirements will be enforced, (j) who in the department will be responsible for monitoring the project and how many personnel-years will be needed, (k) how current Budget Act language has affected program implementation, (l) whether there is a data collection and/or evaluation plan, and (m) whether this project is a demonstration project or a program representing a long-term funding commitment.
2. No funding other than the state's share has been secured. The 15-worker limit on participating growers apparently has restricted the potential for grower involvement and no appropriate federal funds have been identified, must less secured.
3. No statutory authorization for this project exists other than the language in the 1984 Budget Act.
4. The amount proposed in the budget is inconsistent with the original proposal approved by the Legislature, in that it would fund 80 percent of the project's annual cost (projected at $2,565,000 during hearings on the 1984 Budget Act). The original proposal limited the share of total costs paid by government to 60 percent. Therefore, the most the state should pay, should the project prove to be viable, is $1,539,000, or $513,000 less than the amount requested in the Governor's Budget.
5. At this point, it is unclear (a) if the local and federal governments still plan to participate in this project, (b) the level of funds expected from them if they do participate, and (c) whether these funds will be in addition to, or in replacement of, the money that the budget proposes as the state's share.

Recommendation. We believe a project involving government, employers, and farmworkers in an effort to deliver health care to an under-

DEPARTMENT OF HEALTH SERVICES—Continued

served and mobile population has considerable merit. The department, however, has simply not developed a viable program for getting such a project off the ground. Under these circumstances, the Legislature should not commit state funds for the project. Accordingly, we recommend that the $2,052,000 requested for the project be deleted from the budget. If the administration is able to develop a viable plan for initiating the project, we will reconsider this recommendation.

D. ENVIRONMENTAL HEALTH AND HEALTH PROTECTION

Sanitary Engineering, Epidemiology, and Toxicology Augmentations

The budget proposes significant augmentations in the department's Sanitary Engineering Branch and the Epidemiology and Toxicology Branch related to discoveries of contamination in drinking water, air, food, and the environment.

Increases in Workload. Under the drinking water program the *Sanitary Engineering Branch* (SEB) (1) inspects and regulates water systems with more than 200 service connections, (2) investigates and institutes corrective actions as needed, (3) monitors organic chemical contamination, and (4) coordinates state enforcement of the federal Safe Drinking Water Act.

The passage of Ch 881/83 (AB 1803), which requires additional monitoring for organic chemical contamination, has had two major effects on the branch's workload. First, the act requires the branch to develop sampling plans and monitor test results. Second, initial results from tests mandated by the act in approximately 10 percent of the state's large water systems show that 25 percent of the tested wells are contaminated.

These findings have resulted in additional requests for advice on how to respond to contamination. The department has been unable to respond to most of these requests because it lacks enforceable standards, called maximum contaminant levels (MCLs), for most organic chemicals. Consequently, it cannot say whether levels found in test samples are a problem. Currently, MCLs developed by the federal Environmental Protection Agency are available for seven organic chemicals. The state, however, has not developed any MCLs.

The *Epidemiology and Toxicology Branch* (ETB) provides medical and toxicological advice to various state agencies and conducts health effect studies on suspected cases of environmentally caused illness. The branch advises the Departments of Food and Agriculture and Industrial Relations, the Air Resources Board, the regional and State Water Resources Control Board, and three programs within the department that regulate hazardous waste, drinking water quality, and processed food. The demands on the branch have grown significantly in recent years, as monitoring by these regulatory programs has discovered more and more environmental contamination.

The ETB has developed some action levels (ACLs) as advisory guidelines for local water districts until MCLs are available.

1984 Governor's Vetoes. The Legislature augmented the 1984–85 budget by $2,051,000 and 39 positions for drinking water standards development, inspections, and special studies. The Governor, however, vetoed $1,590,000 and 33 positions from the augmentation. The Governor also vetoed $1,383,000 of the $1.9 million added by the Legislature to expand the state cancer registry and $299,000 of the $599,000 added for laboratory testing for pesticide residue in processed foods.

1985–86 Proposed Budget. The budget proposes the following augmentations for the drinking water, epidemiology, and toxicology programs:

- $4,008,000 (General Fund) and nine positions to develop 35 MCLs for organic contaminants found in drinking water. This amount consists of (1) $2,545,000 and 2.5 positions in the ETB to prepare risk assessments and (2) $1,463,000 and 6.5 positions in the SEB for engineering feasibility studies and technical assessments required to develop and adopt formal MCLs as regulations.
- $1,600,000 and 2.5 positions in the SEB to test small water systems for contamination.
- $825,000 and 2 positions in the ETB to expand and continue health effect studies on the increased incidence of cardiac birth defects and spontaneous abortions identified in Santa Clara County.
- $369,000 (General Fund) and 6 positions to advise the Department of Food and Agriculture on pesticide health effects.
- $444,000 (General Fund) and 4 positions to develop risk assessments on toxic air contaminants for the Air Resources Board.
- $365,000 (Hazardous Waste Control Account) and 7 positions for risk assessment and consultation on hazardous waste sites for the Toxic Substances Control Division.

We recommend approval of the proposals for small water system testing, the Santa Clara County studies, and the positions and funds to advise the Department of Food and Agriculture and the Toxic Substances Control Division. Discussion of the other two proposals follows.

Drinking Water Standards

We recommend a reduction of $1,008,000 in General Fund support to delete part of the funds requested for consultant contracts because the department will be unable to productively spend the full amount.

The budget proposes an augmentation of $4,008,000 (General Fund) and nine positions to develop 35 maximum contaminant levels (MCLs) for organic contaminants found in drinking water.

The department proposes to contract with toxicology and engineering firms for 35 risk assessment and engineering feasibility studies. The proposed state staff would (1) develop the contract specifications, (2) select and oversee the various contractors, and (3) use the contractor's studies to develop regulatory standards.

At our request, the department developed an implementation plan showing the amount of time needed for the various stages of MCL development. Specifically, the plan estimates that it will take 25 months from the development of a list of substances to the adoption of MCLs. It proposes to contract for studies in three phases. The department's plan shows that the first 10 MCLs funded by this augmentation will be adopted in March 1987, although recommended MCLs for the first 10 substances could be available in July 1986.

Our analysis indicates that the department clearly *does* need to develop additional standards in order to advise water systems who have found their wells to be contaminated. The department's own schedule, however, shows that it will be unable to encumber all of the proposed contract funds during 1985–86. On this basis, we recommend that $1,008,000 of the $4,008,000 requested for contracts which will not be needed until 1986–87 be

DEPARTMENT OF HEALTH SERVICES—Continued

deleted. This amount includes $720,000 from the ETB and $288,000 from the SEB.

In addition to the $4,008,000 requested in 1985–86, the budget states that $1 million will be requested through the Section 28 process for the drinking water program in the current year. As of January 23, 1985, the Section 28 letter had not been submitted and the department has not identified how it intends to spend these funds. The department's implementation plan identifies a need for some staff in the current year to develop contract specification and solicit proposals. The plan does not, however, document a need for $1 million in the current year or indicate that the department would be prepared to enter into contracts prior to July 1, 1985.

Impact of Reduction in Inspections Unknown

We recommend that the Legislature adopt supplemental report language requiring the department to establish a system for tracking the effectiveness of large drinking water system inspections.

During the last four years, federal support for state safe drinking water programs has been reduced from 70 positions to 31 positions. These positions are located throughout the department, not just in the SEB, and include staff for laboratories, legal services, and the Office of Local Environmental Health Programs, which assists counties in the regulation of small systems. Within the SEB, federally funded staff declined from 28 to 13 positions, a 54 percent reduction. Most of the positions either inspected facilities for compliance with federal and state standards or provided technical assistance to water districts.

In addition to the federal cutbacks, at least six state inspectors have been redirected to the organic chemical monitoring program established by Ch 881/83 (AB 1803). The department indicates that the effect of the staff reductions has been to reduce inspections of large water systems by one-half since 1982–83. Prior to the reduction, all large water systems were inspected once annually. In the current year, the department expects to inspect only one-half of the systems.

The Legislature augmented the 1984 Budget Bill by $881,000 (General Fund) and 19 positions to restore past staffing levels so that annual inspections could be resumed. The Governor vetoed $621,000 and 13 positions of the augmentation. The 1985–86 budget does not propose any changes in either the number of inspectors or the frequency of inspections.

We are unable to analytically determine what impact the staffing reduction and reduced inspection frequency are having on the regulated water systems or the quality of the state's drinking water. The major reason we are unable to make this determination is that the department has not established a reporting system capable of showing whether reduced inspections lead to increased deficiencies. So that the Legislature can obtain the information it needs in order to evaluate the impact of the reduction in inspection frequency, we recommend that it adopt the following supplemental report language requiring the department to develop a better reporting system:

> "The Sanitary Engineering Branch shall establish a systematic reporting system for the large water system surveillance program in order to analyze the impact of changes in the frequency of inspections. The reporting system shall track deficiencies that could pose eventual threats to consumers including, but not limited to, (a) physical defects,

(b) changes in water quality, (c) violations, (d) management or maintenance problems, and (e) consumer complaints. The department shall, if possible, include in the system at least one-quarter of data from 1982–83. The department shall analyze data for 1982–83, if it is available, 1984–85, and the period July–December 1985 and submit findings to the fiscal committees and the Joint Legislative Budget Committee by March 1, 1986."

Epidemiology and Toxicology Plan

The 1984 Budget Act required the department to develop a five-year plan for this program that includes a staffing assessment and identification of specific activities anticipated in seven areas, including standards for air and water contamination, pesticide health hazards, birth defects monitoring, and cleanup standards and health effect studies for hazardous waste sites. This plan was due on December 31, 1984.

At the time this analysis was prepared, the department had not yet submitted the plan. Nor had the department submitted the feasibility study on expanding the state cancer registry, which was due on December 1, 1984. Without these reports, the Legislature's ability to evaluate the augmentations proposed in the budget is greatly hindered.

Toxic Air Contaminants Overbudgeted

We recommend that $85,000 of the $444,000 requested from the General Fund for toxic air contaminant risk assessment be deleted because this amount is already in the department's base budget.

Chapter 1047, Statutes of 1983 (AB 1807), establishes procedures for setting standards for the control of toxic air contaminants. The Air Resources Board (ARB) is responsible for selecting substances for study and adopting control measures to reduce pollutants. The Epidemiological Studies Section in the department is required to provide a detailed health effect analysis and toxicological review within 90 days of receiving a request from the ARB. The board sent the first request to the department in March 1984.

The Governor's Budget for 1984–85 requested an additional $889,000 and 5.7 personnel-years to increase the ARB's efforts in regulating these substances but provided no funding for the department. The Legislature augmented the department's budget by $251,000 to provide a total of five positions (two new positions and three redirected positions). The Governor vetoed $292,000 and five positions on the basis that the augmentation to the ARB's budget had been deleted, thereby eliminating the department's need for the positions.

On July 17, 1984, the Director of Finance notified the Legislature in a

DEPARTMENT OF HEALTH SERVICES—Continued

Section 28 letter that he intended to authorize the Department of Health Services to administratively establish three positions for toxic air contaminants that were vetoed "due to a misunderstanding." The department stated that the three positions would be funded from unidentified savings in the Department of Health Services budget. The department also redirected one additional position, for a total of four allocated to this program.

As of January 1, 1985, none of the positions were filled. The department has diverted toxicologists from other programs to respond to ARB requests. Despite the redirections, the department has missed all of its statutory deadlines in providing risk assessments to the ARB. The department informs us that once the four positions are filled in January and February, the staff should be able to catch up with the backlog during the budget year.

The budget requests an augmentation of $444,000 from the General Fund to develop up to nine risk assessments of toxic air contaminants in 1985–86. This amount includes $244,000 for continuation of the four positions and $200,000 in consultant contracts. We recommend approval of the proposed staffing and workload, but we recommend the deletion of $85,000 to take into account five months of staffing funded in the department's current-year budget. Given that the department has funding for five months in the current-year base budget, then the budget augmentation should be reduced by that amount.

Low-Level Radioactive Waste

We recommend that the department report prior to budget hearings on (1) the status of its efforts to license a low-level radioactive waste disposal site operator, (2) the status of a proposed compact with Arizona, and (3) the options, costs, and need for developing an interim storage facility, beginning in the budget year.

Chapter 95, Statutes of 1982 (AB 1513), and Ch 1177/83 (SB 342) established procedures for developing a low-level radioactive waste disposal site and designated the department as the lead agency for selecting an operator and location. The acts state that if, by August 13, 1984, the department had received no acceptable applications from private parties to operate such a facility, the Resources Agency shall develop a site directly. These measures were passed in response to federal action that authorized regional compacts of states to exclude waste from other states after January 1, 1986.

Our analysis indicates that the department is at least six months behind schedule carrying out its duties under Ch 95/82 and Ch 1177/83. As a result, state waste generators may be without adequate disposal options during 1985–86.

To date the department has failed to license a facility operator. In June 1984, the department solicited and reviewed proposals and selected a licensee. That applicant subsequently withdrew and the department revised the technical specifications and reopened the application process. One of the original applicants then obtained an injunction that further delayed the selection. The department advises that it intends to select a licensee by March 1, 1985.

Nor is California part of a regional compact. An agreement negotiated by the administration with Arizona was not approved by the Legislature during the 1983–84 session. It is unlikely that a final compact will be approved in the current year because the Arizona Legislature adjourns in April and its concurrence would be needed on any changes made by California.

Given these delays, it is likely that California will need to provide an interim storage facility until a permanent disposal site is operational. Although the department is authorized to pursue this alternative, and the Department of General Services has designed such a facility, the budget does not provide for its construction or operation. The department estimates that it will cost $18 million over a five-year period to site, build, and operate an interim storage facility.

We therefore recommend that the department report prior to budget hearings on (1) the status of its efforts to license a site operator, (2) the status of the proposed compact with Arizona, and (3) the options for providing interim storage or disposal after January 1, 1986. The report should address when the state needs to decide on an interim facility and the cost implications of developing such a facility in 1985–86.

Acquired Immune Deficiency Syndrome Funding Doubled

We recommend approval.

The budget proposes $2,034,000 from the General Fund for public health activities to control Acquired Immune Deficiency Syndrome (AIDS). This is an increase of $1,034,000, or 103 percent, above the $1 million appropriated for the current year. The budget amount includes (1) $1,237,000 for information and education projects, an increase of $500,000 from current-year expenditures, and (2) $797,000 for epidemiological activities, laboratory screening, surveillance, data gathering activities, and program management, an increase of $534,000 from current-year expenditures.

In the current year, nine positions were funded under contract for a nine-month period to develop and monitor information and education contracts, conduct laboratory services, and interview patients and physicians. The budget proposes to continue the existing 9 contract positions and to add 7 state positions and 3.5 contract positions.

Information provided by the department indicates that the incidence of AIDS is increasing. We believe that a prompt state response to this serious public health threat is appropriate. We therefore recommend approval of the amount requested for AIDS control.

Dental Health

Chapter 1134, Statutes of 1979 (SB 111), requires the Legislative Analyst's Office to conduct an evaluation of the Dental Disease Prevention program by January 1, 1985. We were unable to meet that deadline because of delays in receiving data from the Department of Health Services and its contractor, the University of California, San Francisco (UCSF) dental school.

The program serves children in kindergarten through the sixth grade and includes daily in-class brushing and flossing, weekly fluoride mouth rinse, and dental health and nutritional information. Participation in the program is voluntary at the county, school district, school, teacher, and pupil levels. The first children were served in 1981. In the current year, the program serves approximately 333,000 children, at a cost of $1.5 million.

Our evaluation will be based on baseline and follow-up dental examinations in sample school districts. Although the follow-up examinations were

DEPARTMENT OF HEALTH SERVICES—Continued

performed by UCSF staff in April and May 1984, the final tabulation and analysis have not been completed. We received a draft of the UCSF report on January 29. If we receive the final report in February, we anticipate being able to complete our review by April 1, 1985.

The budget proposes to transfer this program, effective January 1, 1986, to counties as part of the Family Health Initiative discussed earlier in this analysis. The proposal requires counties that currently receive funds to continue serving the same number of children and follow state standards for the first two years following the transfer.

Alzheimer's Disease Program

We recommend that $939,000 proposed for grants in the Alzheimer's Disease program be transferred from state support (Item 4260-001-001) to local assistance (Item 4260-111-001).

The department proposes $1 million for the Alzheimer's Disease program, including $939,000 in grants to fund research, diagnostic, and treatment centers, and an additional $61,000 for state support costs associated with awarding the grants.

We recommend approval of this request because it is consistent with legislative action establishing this program (Ch 1601/84). We recommend, however, that the $939,000 proposed for Alzheimer's Disease program grants be transferred to the public health local assistance item (Item 4260-111-001), because funding for these grants is more appropriately budgeted as local assistance.

Environmental Toxicology Funding Shift

The budget proposes to transfer $615,000 in environmental toxicology costs from the General Fund to the Hazardous Waste Control Account. The department advises that this funding shift is in error, and that it will propose a budget amendment to rectify the error.

Other Budget Proposals

We recommend approval.

The budget also proposes increases in General Fund expenditures in the following five areas: (1) radioactive materials regulation and machine inspections ($489,000 and three positions), (2) mosquito surveillance laboratory services ($65,000), (3) immunization cost increase ($800,000), and (4) toxic art and craft supply safety and labeling review ($141,000).

We have reviewed these proposals and recommend that the requested amounts be approved on a workload basis.

4. TOXIC SUBSTANCES CONTROL

A. OVERVIEW

The Toxic Substances Control Division (TSCD) administers programs that regulate hazardous waste management, clean up sites that have been contaminated by toxic substances, and encourage the development of treatment and disposal facilities as alternatives to waste disposal onto land.

Budget Request

The budget proposes expenditures of $157,044,000 (all funds) for the TSCD in 1985–86, including expenditures for program support and special projects. This is an increase of $86,897,000, or 124 percent, above estimated current-year expenditures.

The significant program increase results from the proposed implementation of the Hazardous Substance Cleanup Bond Act of 1984. The budget requests that the full $100 million authorized by the act be appropriated for 1985–86. Of this amount, the budget proposes to spend $97,054,000 in the TSCD. This increase is partially offset by a reduction of $20.4 million in expenditures from the Hazardous Substance Account (HSA). The reduction reflects certain one-time expenditures in 1984–85 that will not be repeated in 1985–86. The one-time expenditures were financed by (1) a reappropriation of $19.6 million carried over from 1983–84 and (2) an $800,000 appropriation from the HSA for early implementation of the bond act.

The budget proposes 327 positions for the TSCD in 1985–86, which is an increase of 53 positions above the current-year authorized staffing level. This increase reflects the budget's request for 72 positions in the TSCD to implement the bond act. The net increase in actual staffing resulting from this proposal is only 42 positions, because 30 of the positions were administratively authorized in the current year. The budget requests a total of 109.5 new positions to implement the bond act, including 37.5 in other divisions.

Table 16 displays the expenditures and funding sources for the TSCD in the prior, current, and budget years.

Table 16
Department of Health Services
Toxic Substances Control Division
Expenditures and Funding Sources
1983–84 through 1985–86
(dollars in thousands)

	Actual 1983–84	*Estimated 1984–85*	*Proposed 1985–86*	*Change 1985–86 over 1984–85 Amount*	*Percent*
Support	$13,183	$42,027	$121,994	$79,967	190.3%
Special projects	828	28,120	35,050	6,930	24.6
Totals	$14,011	$70,147	$157,044	$86,897	123.9%
Funding sources					
Hazardous Substances Cleanup Fund	—	—	*$97,054*	*$97,054*	*NA*
Hazardous Substance Account	*$4,738*	*$28,874*	*8,446*	*−20,428*	*−70.7%*
Hazardous Waste Control Account	*4,918*	*9,660*	*12,849*	*3,189*	*33.0*
Federal Resource Conservation and Recovery Act (RCRA)	*3,344*	*3,493*	*3,645*	*152*	*4.4*
Federal Superfund	*616*	*21,800*	*21,800*	—	—
Responsible parties	—	*4,175*	*10,850*	*6,675*	*159.9*
Federal special projects	*212*	*2,145*	*2,400*	*255*	*11.9*
Energy and Resources Fund	*183*	—	—	—	—

Table 17 displays the components of the changes proposed in the TSCD support budget for 1985–86.

Budget Proposal for Bond Act Funds. The budget proposes expenditures of $100 million in bond act funds during 1985–86, including $6,842,000 and 109.5 positions for department staff and laboratory costs and $93,158,000 in unclassified expenditures. The department also submitted a statutorily mandated expenditure plan that shows expenditure of the $100 million over a 22-month period extending from March 1985 through December 1986. The expenditure plan earmarks $90,435,000 for contracts to characterize and mitigate the contamination and $9,576,000 for staffing and laboratory costs over the 22-month period. Table 18 shows expenditures as proposed in the budget and as proposed in the department's expenditure plan.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 17
Department of Health Services
Toxic Substances Control Division
Proposed Support Budget Changes
(dollars in thousands)

	Positions	*Amount*	*Fund*
1984–85 expenditures (revised)	274.0	$42,027	Various
Baseline adjustments:			
1. Cost increases (inflation and merit salary adjustments, etc.)	—	366	Various
2. Deletion of administratively established positions (bond implementation)	−30.0	−648	HSA
3. Decrease for direct funding of Attorney General costs	—	−230	HSA
4. Elimination of one-time reappropriation	—	−19,644	HSA
5. Restore redirected positions	2.0	23	HSA
Subtotals	246.0	−$20,133	Various
Program change proposals:			
1. Site mitigation and bond act implementation	72.0	$97,054	HSCF (Bond)
2. County internships	—	841	HWCA
3. Site fencing and local notification	2.0	563	HWCA
4. Enforcement	7.0	362	HWCA
5. Employee safety	—	277	HWCA
6. Waste reduction	—	400	HWCA
7. Economic incentives for waste reduction	—	100	HWCA
8. Land disposal restrictions	4.0	148	HWCA
9. Computer terminals	—	150	HWCA
10. Hazardous waste information system (HWIS)	—	115	HWCA
11. Hazardous waste site ranking	2.0	83	HWCA
12. Public notices	—	50	HWCA
13. Temporary help in the permit program	1.5	32	HWCA
14. Permit fee regulation development	0.5	26	HWCA
15. Financial assurance and liability	−6.0	−35	HWCA
16. Reduction in temporary help	−2.0	−66	HWCA
Subtotals	81.0	$100,100	Various
1985–86 expenditures (proposed)	327.0	$121,994	Various
Change from 1984–85:			
Amount	53.0	$79,967	
Percent	19.3%	190.3%	

Overview of Problems

We have identified a number of major problems and issues that the Legislature must respond to in considering the TSCD budget. First, the proposals and information submitted to the Legislature are incomplete, making it difficult for the Legislature to meaningfully participate in the decision-making for the hazardous waste program. Specifically, the budget lacks an expenditure plan for $10.2 million from the Hazardous Substance Account, $21.8 million in federal funds, and $10.9 million from responsible parties. Second, the department requests the authority to make substantial changes in the expenditure plan submitted for $100 million from the Hazardous Substance Cleanup Fund without further legislative action.

Table 18
Department of Health Services
Hazardous Substance Cleanup Bond Act
Proposed Expenditures
(dollars in thousands)

Time period covered	*Budget Proposal* July 1985 to June 1986	*Expenditure Plan* March 1985 to December 1986
Staffing and support costs	$6,842	$9,576
Unclassified expenditures	93,158	—
Contracts:		
1. 43 sites fully funded by bond proceeds	NA	71,505
2. State matching funds and oversight of 49 sites on federal site priority list	NA	18,320
3. Oversight of eight cleanups by responsible parties	NA	610
Totals	$100,000	$100,011 [a]

[a] The department was unable to explain why this amount exceeds the amount available from the bond act.

Third, the department also proposes expenditures using inappropriate funding sources and has not maintained appropriate distinctions between activities supported by different special funds.

Fourth, the organizational structure shown in the budget may soon be changed. On January 8, 1985, the Governor proposed the creation of a new Department of Waste Management. The budget, however, does not reflect this significant proposed organization change. At the time this analysis was prepared, the administration had not disclosed which activities it intends to transfer to the new department or where the new department would be located organizationally. The Governor stated that he would submit a reorganization plan to the Commission on California State Government Organization and Economy within 100 days.

Our analysis of the budget is based on the existing organizational structures for toxic substances control.

Organization of Analysis

Our analysis is organized into four sections: (1) issues regarding taxes and fees, (2) policy issues related to the bond program, (3) current-year fiscal issues, and (4) specific budget issues.

B. ISSUES REGARDING TAXES, FEES, AND REVENUES

Multiple Funding Sources

The Toxic Substances Control program currently is supported from six different funding sources. The funds and the programs supported by each one are as follows:

1. ***The Hazardous Substances Cleanup Fund (HSCF)***, established by Ch 376/84, is supported by $100 million raised by the sale of general obligation bonds, as authorized by the voters in November 1984. The funds are available to finance site characterization and remedial action at contaminated sites that appear on a priority ranking list established annually by the TSCD. The act requires that the funding needed to retire the bonds come from a number of sources, including recoveries from responsible parties, federal funds, and the Hazardous Substance Account. If those sources are not adequate to repay bond principal and interest, Chapter 376 authorizes General Fund payment for this purpose.

DEPARTMENT OF HEALTH SERVICES—Continued

2. ***The Hazardous Substance Account (HSA),*** established by Ch 756/81, derives its revenue from taxes paid by generators of hazardous substances. The budget proposes to use the account to fund (a) cleanup of hazardous waste sites, (b) emergency response to releases of hazardous substances, (c) health effect studies, (d) associated administrative costs, and (e) victim compensation claims.

The HSA tax is collected from companies that generate more than 500 pounds of hazardous waste per year. Chapter 756, Statutes of 1981 (SB 618), established four categories of waste, based on degree of hazard, and specified a procedure for determining tax rates for each type of waste. The act requires waste generators to report annually to the Board of Equalization by March 1 on the amount of waste produced in each of the four categories. The board then calculates tax rates in order to generate $15 million in revenue each year.

3. ***The Hazardous Waste Control Account (HWCA)*** is supported by fees paid monthly by operators of hazardous waste disposal facilities. The account funds the ongoing regulatory activities of the division, including permitting, inspections, transportation, manifesting, resource recovery, alternative technology assessment, designation of hazardous waste property, public participation, and program administration. It also funds (a) laboratory support services and health effect studies conducted by the Health Protection Division and (b) regulatory activities of the State Water Resources Control Board.

4. ***Federal Resource Conservation and Recovery Act (RCRA)*** funds are awarded to California by the federal Environmental Protection Agency (EPA) to support the state's hazardous waste control program. The federal program supports many activities that also are funded by the HWCA.

5. ***The Federal Superfund*** (Comprehensive Environmental Response, Compensation, and Liability Act) finances the costs of cleaning up major uncontrolled hazardous waste sites on a 90 percent federal, 10 percent state basis. The EPA has designated 53 sites in California as eligible for this program.

6. ***Responsible Parties*** are private companies or individuals that reimburse the state for the cost of cleaning up hazardous waste sites.

HWCA Revenues Insufficient To Fund Proposed Programs

Current law requires the department to adjust the HWCA disposal fee, through regulation, in order to (1) generate sufficient revenue to support program expenditures and (2) provide for a reserve of 5 percent. Current law also requires the department to establish a variable fee system, based on the degree of hazard presented by different types of waste.

During the last three years, HWCA fee rates have been adjusted by the Legislature in the budget trailer bill because (1) the department failed to develop regulations for doing so in a timely manner and (2) legislative budget augmentations necessitated fee increases.

The current fee schedule involves six categories of wastes. The fee rates range from $.50 per ton for waste residues meeting specified criteria to $19.84 per ton for extremely hazardous and restricted waste.

These fee rates will sunset on April 1, 1985. At that time, the fee rate reverts to $1 per ton on all types of waste, up to 2,500 tons per month per generator. This is the rate established by department regulations in the mid-70s. The $1-per-ton rate would not generate sufficient revenues to fund the expenditures proposed in 1985–86.

In the following sections, we discuss issues related to developing a fee assessment method for the HWCA. Specifically, we discuss (1) consolidation of the HSA and HWCA revenue collection systems, (2) whether the HWCA system should operate through regulations or a statutory formula, (3) which wastes should be subject to taxation, (4) caps and floors on taxes and fees, (5) whether costs of operating the regulatory program should be reflected in the tax structure, (6) tax/fee rates for different types of wastes, and (7) the method of revenue allocation.

We have not included recommendations in these discussions because there simply is not enough information available on the impact of the current system, the relative degree of hazard associated with different waste streams or disposal methods, and the costs of the department's regulatory program by industry or by type of waste, to support firm conclusions regarding relative fee levels. Until these and other questions are throughly studied and evaluated, the Legislature will continue to be at a disadvantage in trying to develop a permanent statutory solution to the fee issues.

1. Consolidation of HWCA and HSA Revenue Collection Systems

If the change to generator payment of fees is implemented, the waste generators will have to keep track of different rates and categories of wastes subject to taxation. For example, waste deposited in a surface impoundment is treated differently under the two systems. Under the HSA system, all waste deposited for disposal or evaporation into a surface impoundment is subject to taxation at the rate of 15 percent of the base tax rate. Under the HWCA system, only waste disposed into a pond and not removed within 12 months is subject to taxation at 100 percent of the base fee rate. Any waste above 3,500 tons per month is exempt from taxation.

The Legislature may wish to consider consolidating the two revenue collection systems or developing consistent waste categories and relative rates.

2. Regulations or Statutory Formula

Adjusting fee rates through the regulatory process apparently is not feasible so long as program expenditures change significantly from year to year. The department estimates that it takes between 9 to 12 months to develop and adopt regulations. The main component driving fee rates, however, is the amount of revenue needed to operate the program, which is not known until the budget is signed by the Governor. By that time, it is too late to start the regulatory process without suffering a revenue shortfall during the review period.

The Legislature should consider establishing a statutory formula for setting HWCA fees, similar to the formula used to levy HSA taxes. If this were done, the board would calculate the fee rates each year, based on appropriations in the budget and estimates of waste tonnage.

3. Waste Subject to Taxation

Currently, both systems assess fees or taxes only on waste disposed on land. Wastes that are stored or treated generally are not subject to taxation, although treatment through evaporation in a surface impoundment is subject to taxation in the HSA system. Thus, treatment and storage facilities generally pay no portion of the state's regulatory costs, even though they may pose a threat to the environment and health and are

DEPARTMENT OF HEALTH SERVICES—Continued

subject to regulation by the department.

On a longer term basis, the existing systems have an additional flaw. As regulations to ban land disposal of selected highly hazardous wastes take effect and the department starts a new program to reduce waste generated at the source, the quantity of waste tonnage upon which the fee is assessed will decline. The department's regulatory program, however, will continue because it regulates storage, treatment, transportation, and generation of waste in addition to land disposal. The decreased tonnage combined with potentially increased program costs will place a significantly larger burden on those companies that continue to dispose of waste on land.

The Legislature may need to (1) increase the types of waste subject to fees and taxes, to include more than just land-disposed waste, (2) impose additional user fees, such as permit or hauler fees, or (3) increase the amount of revenue from existing user fees.

4. Caps and Floors

In the current year, generators must pay HWCA fees only on the first 3,500 tons per month, for most types of waste. Such caps serve as a "large generator discount" and may eliminate incentives for waste reduction or alternative treatment methods in the case of the largest waste streams. An initial review by the Board of Equalization indicates that four companies realize annual savings totaling approximately $1.2 million as a result of the cap.

The HSA tax has a floor instead of a cap—it only taxes companies that generate more than 500 pounds per year. While this system simplifies tax administration by minimizing the number of taxpayers, it allows the vast number of waste generators to pay nothing toward the cost of site mitigations and emergency response. The department estimates that although at least 20,000 companies generate hazardous waste in California, only approximately 2,500 generators pay taxes to the HSA.

5. Costs of Operating the Regulatory Program

Industry representatives have suggested that the fee systems take into account some measure of the "regulatory burden" placed on the department by various industries or types of waste—that is, the relative costs of regulating different types of industries or different types of waste. The concern is based on a perception that while large generators pay the bulk of the taxes and fees, the bulk of the inspection and enforcement workload involves small generators.

6. Tax/Fee Rates for Different Categories of Waste

Under both HWCA and HSA systems, there is a "base" tax/fee rate that applies to certain types of waste. The tax/fee rates applying to other types of wastes are expressed as a percent of the base rate. Table 19 shows the tax/fee rates, expressed as a percent of the base rate, for different types of wastes under the two systems.

Table 19 shows that the two revenue systems have significantly different rate structures. Neither system is based on a systematic analysis of (1) the degree of hazard associated with the waste type or the disposal method or (2) the regulatory costs associated with the waste type or the disposal method. Instead, rates reflect the result of negotiations between industry, administration, and legislative representatives during the development of the two systems, the HSA system in 1981 and the HWCA system in 1984.

Table 19
Department of Health Services
Comparison of Hazardous Substance Account Tax Rates
And Hazardous Waste Control Account Fee Rates
1984–85

	Hazardous Substance Account		*Hazardous Waste Control Account*	
Waste or Disposal Category	*Rate as a Percent of Base Tax Rate*	*1984 Rates*	*Rate as a Percent of Base Fee Rate*	*1984–85 Rates*
Base rates	*100%*	*$12.91*	*100%*	*$9.92*
Mining waste	1%	$0.13	25% [a]	$2.48 [a]
EPA exempt waste	15	1.94	25 [a]	2.48 [a]
Waste disposed into surface impoundments,[b] injection wells, or land farms	15	1.94	100 [a]	9.92 [a]
Double-lined surface impoundments	15	1.94	10	0.99
Land-filled waste	100	12.91	100 [a]	9.92 [a]
Extremely hazardous waste	200	25.82	200	19.84
Restricted waste	NA [c]	— [c]	200	19.84
Incineration or treatment residues	NA [c]	— [c]	5	0.50

[a] These rates only apply to the first 3,500 tons per month from each generator.
[b] The HSA definition of disposal in surface impoundments includes a larger volume of waste than the HWCA definition.
[c] Under the HSA tax, restricted wastes and incineration and treatment residues are not a separate category and would be taxed in other categories depending on the waste properties.

The HWCA system includes incentives for preferred waste management practices. For example, it provides lower fee rates equal to (1) 10 percent of the base fee rate for waste disposed in double-lined surface impoundments meeting specified criteria and (2) 5 percent of the base fee rate for residues from incineration or treatment.

7. Method of Revenue Collection

The issues regarding the method of revenue collection include:

- Who should pay for the cost of state programs and activities: waste generators or disposal site operators?
- How often should payment be collected?
- Do the Board of Equalization and the department have adequate procedures to insure that all potentially liable companies have paid appropriate fees and taxes?
- What is the most efficient way to collect the revenue?

Chapter 1379, Statutes of 1984 (the 1984 budget trailer bill), transferred the responsibility for paying HWCA fees from approximately 135 disposal site operators to the generators of hazardous waste, effective April 1, 1985. The department estimates that the number of waste generators subject to the new requirement is 20,000.

The transfer will generate a significant increase in the Board of Equalization's workload, in both the current and the budget years, due to the increased number of accounts the board must handle. The cost to develop a system for tracking these accounts is unknown. The board estimates, however, that it will incur ongoing costs that may be as much as $926,000 above the current annual program costs ($382,000). At the time this analysis was prepared, the board had not received additional funds nor initiated action to implement the new system. Nor does the budget propose any increase in the board's budget for this purpose. The administration has proposed enactment of legislation to (1) postpone implementation of the change until July 1, 1985, and (2) reduce the frequency of collecting fees, thereby reducing the ongoing costs of the system.

The new system will provide information for evaluating the fee system because it will require all generators to report and pay the fee directly to the board. Currently, it is impossible to tell how much revenue is paid by various segments of industry, because data are aggregated by the site operators.

The new system will affect the integrity of the fee system because it is much easier for the board to audit and insure payment from 135 site operators than from 20,000 generators. In order for the new system to be effective and generate sufficient revenue to support the HWCA programs, the board will need to depend on the department's field inspectors to review the accuracy or reasonableness of reported tonnage. Currently, the two departments do not share information on a regular basis nor have they developed procedures for referring newly identified waste generators or disposers between the agencies. In the past, the two agencies have been unable to reconcile the amounts of waste tonnage reported to the board under the HWCA and HSA revenue systems with tonnage amounts reported to the department through the manifest system for waste transported off-site and the monthly on-site disposal reports.

The Legislature may want to reconsider whether relieving the waste disposal operators from fee collection responsibilities and the more specific information are worth the additional ongoing costs of tax administration, and potential loss of integrity of the fee system.

Hauler Fees Are Too Low

We recommend the enactment of legislation to increase fees paid by haulers of hazardous waste because current fee revenues only fund 35 percent of hauler regulatory costs.

Current law requires all haulers of hazardous waste to (1) register with the department and (2) have their vehicles and containers inspected annually by the California Highway Patrol. The law also establishes fees to support these activities.

Our analysis indicates that the revenues generated by the existing statutory fee rates generate only 35 percent of the revenue needed to support the department's hauler regulatory activities. The department estimates that in 1984–85 its revenues will be $89,000 and its expenditures will be $248,000, resulting in a revenue shortfall of $159,000.

There are four reasons for the revenue deficiency: (1) the annual fee rates of $50 per hauler registration and $5 to $15 per vehicle have not been revised since 1977, (2) the law exempts from paying vehicle fees haulers who earn less than $35,000 in gross annual revenue from hazardous waste, and (3) no fees are charged for containers, although they are also subject to regulation. Fee rates can only be changed by statute; they cannot be altered by regulation or through the Budget Act.

We recommend the enactment of legislation to (1) raise fee rates to cover program costs, (2) authorize the department to revise future fee rates by regulation, (3) eliminate the exemption for small haulers, and (4) establish fees on containers. Our preliminary estimate shows that fee rates would have to be increased by up to three times their current level in order to cover the current deficit in this program. The increases would generate approximately $160,000 in additional annual revenue to the HWCA.

C. THE BOND PROGRAM: POLICY ISSUES

In November 1984, voters approved the Hazardous Substance Cleanup Bond Act, which authorizes the sale of $100 million in potentially self-liquidating general obligation bonds to finance cleanup of contaminated sites. Under the act, the department can use the funds, once they are appropriated by the Legislature, to determine the type and extent of contamination at a site and to mitigate the contamination once a remedial action plan for that site has been developed and adopted.

In this section, we discuss policy issues that we have identified in our review of the department's implementation plan for the bond act funds. For most of these issues, we can find no analytical basis on which to recommend a specific course of action to the Legislature.

Previous Funding for Site Mitigation. The California Superfund program was created in 1981 to finance the cleanups of hazardous waste sites that pose a threat to public health or the environment. Under this program, the department determines which sites will be mitigated using state funds by ranking known hazardous waste sites. The state priority ranking list (SPRL) is updated once each year, on January 10, and more frequently if needed.

Mitigation activities include removing, treating, or containing the waste on site. After a preliminary assessment that results in a ranking for the site on the state list, mitigation involves (1) detailed site characterization, (2) a feasibility study of alternatives, (3) remedial action plan development, (4) design and implementation of the cleanup, and (5) if needed, ongoing operation and maintenance.

In the first three years of the Superfund program, three sources of funding were available for site mitigation: (1) $10 million per year from the state Hazardous Substance Account (HSA), (2) federal Superfund allocations from the Environmental Protection Agency, and (3) payments from parties responsible for past disposal of hazardous wastes. Most responsible parties have chosen to fund cleanups directly, rather than providing funds to the state.

How Much Flexibility Should the Department Have to Change the Expenditure Plan?

The department's expenditure plan for the $100 million in bond act funds consists of (1) a proposal for staffing and funds to administer the program ($9,576,000), (2) a description of the procedures and the formula used to develop site rankings, (3) the state priority ranking list (SPRL), and (4) an allocation of funds to individual sites, based primarily on the SPRL ($90,435,000).

The department proposes to update the SPRL and the expenditure plan periodically during the year to reflect new information that could affect the rankings. This is because, at many sites, the extent of contamination and the options for mitigation are not known at the present time.

In theory, changes to the expenditure plan should result only from applying the agreed-upon formulas to new objective data. In practice, however, the department's judgments could significantly influence the

DEPARTMENT OF HEALTH SERVICES—Continued

rankings. For example, the data used to develop estimates of both cleanup costs and the potential for direct contact with the public are not firm and are subject to different interpretations. In addition, not all expenditures are dictated by the rankings. The department deviates from the formula in order to provide matching funds for sites eligible for federal support and oversight funds for cleanups conducted by responsible parties, even if the state priority rankings for these sites would not otherwise make them eligible for state funding. The ranking methodology itself could even be changed by the administration when final regulations are developed during the budget year.

Given the opportunities for making *discretionary* changes to the expenditure plan after the Legislature has completed action on the budget, legislative oversight of this program is essential. The department proposes to provide for legislative oversight by reporting periodically on the changes it makes in the expenditure plan. The Legislature, however, would have little effective control over these changes. (The reporting proposal is contained in the expenditure plan. If this approach is adopted, it should be incorporated in the Budget Bill or other legislation.)

As we see it, the Legislature is faced with the difficult task of balancing its need for fiscal control and oversight with the desire for speedy action at contaminated sites. In striking a balance, the Legislature's options range from "locking in" the expenditure plan by incorporating it in the budget (and thereby requiring legislative action to make any changes) to no oversight at all. Within this range are two less extreme options:

1. The Legislature could appropriate less than the full $100 million, thereby keeping control of the unappropriated amount.
2. The Legislature could require the department to submit monthly updates with proposed changes in the plan and quarterly reports on actual encumbrances, expenditures, and progress at the various sites.

Is the Department's New Ranking Methodology Appropriate?

The original act establishing the Superfund program required the department to (1) adopt in regulations criteria for selecting and ranking sites for remedial action, (2) develop a priority ranking of sites at least once each year on or before January 10, and (3) expend funds for remedial actions based on the priority ranking list. The criteria adopted by the department and used for the 1984 list are similar to the federal standards for ranking on the national priority list. Under these criteria, large complex sites with significant environmental damage receive the highest scores and therefore have the highest priority on the ranking list.

Chapter 1682, Statutes of 1984 (SB 1474), required the department to include the following additional criteria in its regulations for ranking sites: (1) the estimated costs of remedial action and (2) the public health benefits resulting from the remedial action.

State Priority Ranking List for 1985. The department's 1985 state priority ranking list (SPRL) uses a new ranking system to incorporate the costs and benefits of cleanup. The new system uses the score generated under the old methodology as an indicator of public health benefit. These scores are then adjusted by the estimated cost of cleanup, using six adjustment factors for different cost ranges.

The adjustment factors applied under the new ranking system result in a significant realignment of sites on the ranking list. Large sites with high cleanup costs now have a *lower* priority than under the old system. For example, the Stringfellow site in Riverside County, which may cost more than $40 million to clean up, drops from its position as number 2 on the 1984 list to number 81 on the 1985 list. Sites at the top of the new list are generally those that are less costly to clean up than sites at the top of the old list. Of the top 10 sites, 8 have estimated costs below $300,000. The new methodology, therefore, results in a greater *number* of site cleanups by concentrating on the smaller sites.

Another important characteristic of the ranking system is that it is very sensitive to changes in costs and the amount of direct exposure to the public. The site-specific cost estimates incorporated in the current rankings may change significantly after site characterizations are completed. If the original cost estimates prove to have been inaccurate, the site's ranking could change dramatically. The same could occur if there is any change in the amount of direct exposure to the public. For many sites, the erection of a fence to restrict entry by the public would be sufficient action to significantly lower its ranking.

On the other hand, the ranking system is *not* highly sensitive to the likelihood of future waste migration at a site. The rankings do not distinguish stable contamination from contamination that is spreading. Over time, the cost of mitigating a site where contamination is spreading will increase. The environmental damage and health risk will also increase.

The weaknesses in the ranking system are partially offset by the fact that it is not the only basis used to allocate funds to sites. Large sites ranked on the federal list are proposed for matching funds, irrespective of their ranking on the state list. For example, the department proposes $400,000 to match available federal funds for cleanup of the San Fernando Basin, which is ranked 135 on the state list. In addition, the plan proposes contract funds to oversee cleanups initiated by responsible parties irrespective of the site ranking.

Should Bond Act Funds be Used to Clean Up Sites Eligible for Federal Funds?

Of the 180 sites on the SPRL, 53 sites are also on the national priority list (NPL) created by the EPA. Because of differences in methodologies used to develop the two lists, sites ranked high on the NPL may be ranked low on the SPRL. The expenditure plan proposes (1) $16,660,000 to match federal funds at 18 sites, (2) $1,960,000 to oversee responsible party activities at 31 sites, and (3) $17,585,000 to provide full funding at 4 sites where the federal government has not made a funding commitment and no responsible party has accepted responsibility for the site.

The estimates for the matching funds and oversight activities seem reasonable, based on federal and responsible party actions. It may be appropriate to delay funding cleanups at the four NPL sites until the federal government commits funds. With federal participation, the state cost for these four sites would be $1,759,000, or 10 percent of the total cost. Without federal participation, the state cost could be the full $17,585,000, because the federal government currently does not reimburse a state retroactively for expenditures at NPL sites.

Should Bond Act Funds be Used to Clean Up Government-Owned Sites?

The expenditure plan proposes to fund cleanups at eight or more sites owned by state or local governments, including agricultural pesticide pits at the University of California, Riverside ($570,000), Port of Oakland property ($1,350,000), and various airports and landfills owned by local governments. Additional government-owned sites are listed in the SPRL but

DEPARTMENT OF HEALTH SERVICES—Continued

currently are not ranked high enough to receive funds. The plan states that cost recovery would be pursued for any cleanups performed at government-owned sites.

The impact of funding these sites from the bond act is to reduce the amount of funds available for sites with no identifiable responsible party or funding. It may be more appropriate to require the affected state and local governments to clean up the site using their own resources.

In fact, a section of law related to HSA expenditures prohibits the use of HSA funds at sites that were owned or operated by a government entity at the time of disposal, if a governmental entity is liable for the costs. We have no basis for determining to what extent the government entities proposed for bond funding are liable for the damages or whether the Legislature intended bond act funds to be subject to the same restrictions.

Should the Legislature Appropriate Funds for Remedial Action Prior to the Department Developing a Process to Set Cleanup Standards?

We recommend that the department submit procedures for developing cleanup standards for legislative review prior to budget hearings.

A major element in the effectiveness and cost of any mitigation program is the determination of cleanup standards, or "how clean is clean." The department has in the past made decisions on a site-by-site basis, in consultation with the Epidemiology and Toxicology Branch. These decisions have often been difficult, complex, and time-consuming. The budget proposes two additional toxicologists within the TSCD to develop "interim remedial action levels" on a fast-track basis. The process for determining these levels is outlined in a concept paper released for discussion by the department in November 1984. In general, the process involves a less comprehensive health risk assessment for site contaminants. At the time this analysis was prepared, the department had not developed detailed operational procedures for developing interim remedial action levels.

Without being able to review the procedures for developing cleanup standards, it is difficult for the Legislature to be certain that the funds proposed for remedial action will be spent appropriately. If faulty standards are adopted, the result could be that more money is spent than is needed to reach a safe level or, at the other extreme, that the cleanup work is incomplete, requiring follow-up remedial actions.

We recommend that prior to budget hearings, the department submit to the Legislature the procedures it will use to develop cleanup standards.

Can the Department Expend $100 Million So Rapidly?

The department intends to (1) begin encumbering $9 million in existing HSA funds for "zone contracts," starting in February 1985, (2) complete 25 site characterizations during the current year, (3) fully encumber the $100 million in available funds by June 1986, and (4) complete expenditure of the funds by December 1986. This schedule is extremely optimistic.

In its *Implementation Report*, released on January 11, 1985, the department describes how it intends to meet these deadlines. The major improvement cited in the report is the reduction in the time required to issue contracts. In the past, the department has issued separate contracts for each activity at each site. That process took up to nine months per contract. In implementing the bond act, the department proposes to contract with up to three "zone" contractors for each of the three regional sections to provide a variety of services. The department would continue to issue separate contracts for large (above $200,000) remedial actions. The zone contracts would specify maximum funding levels, but no expenditures would be authorized until the department issues a task order. The individual task orders would cover site-specific requirements and would not be subject to many layers of review. The regional section chiefs would be authorized to develop and issue the task orders.

The plan assumes that the state and the zone contractors can hire sufficient technical personnel, such as engineers, laboratory specialists, and geologists, with a background in hazardous waste or related activities.

Potential Sources of Delay. We identified the following potential sources of delay in implementing the bond act program: protests of contract awards, time needed for selected contractors and subcontractors to hire additional staff and purchase equipment, delays in appropriating funds, unanticipated conditions at sites that require more time to characterize or remediate, problems in hiring and training state staff and acquiring additional office space, public objections to draft remedial action plans, legal actions by responsible party to prevent mitigation by the state, and challenges to the ranking methodology. The department's schedule generally does not recognize these potential sources of delay.

Impact of Delays. Delays in meeting the milestones set forth in the implementation report and expenditure plan could have the following adverse effects (1) too much staff on board during the initial stages of the program and no ability to let contracts or task orders and (2) no money available to fund staff to oversee the contracts and expenditures after December 1986. In order to have staff available for contract management beyond 1986, the department would have to (1) reduce staff to generate savings, (2) transfer funds from site-specific contract expenditures, if any funds remain uncommitted, or (3) obtain other funding sources.

What Should be the Role of the State and Regional Water Boards?

Although the lead agency for implementation of the bond act is the Department of Health Services, the act also gives certain responsibilities "when appropriate" to the regional water quality control boards. These responsibilities can include reviewing, preparing, or approving remedial action plans. The act does not, however, indicate when the regional water boards, rather than the department, should act. In its implementation plan, the department acknowledges that it has not yet developed a process to ensure consistency between the two agencies. In addition, the budget proposes no funding from the bond act for costs incurred by the state or regional water boards.

Regional water boards also have separate authority to issue (1) cease and desist and (2) cleanup and abatement orders to respond to threats to water quality. We are unable to determine if cleanup orders by the boards will be consistent with the interim remedial action levels developed by the department.

D. CURRENT-YEAR FISCAL ISSUES

Hazardous Substance Account Current-Year Changes

We recommend that, prior to budget hearings, the department submit detailed information on the source and use of $9 million from the Hazardous Substance Account that is proposed in the expenditure plan for early implementation of the bond act.

The department's expenditure plan for the $100 million in bond funds

DEPARTMENT OF HEALTH SERVICES—Continued

indicates that $9 million from the Hazardous Substance Account will be used in the current year to initiate site characterization and remedial action plan development, prior to the appropriation of the bond funds. The department was unable to specify exactly where the $9 million would be obtained or how it would be spent.

Department staff have identified five potential sources for the $9 million: (1) redirection of 1984-85 appropriations for site contracts (up to $3,860,000), (2) unobligated HSA funds reappropriated from 1983-84 (up to $650,000), (3) federal reimbursement for excess state match at the Stringfellow site (up to $2,300,000), (4) potential federal reimbursement for excess state match at the McColl site (up to $1,410,000), and (5) anticipated reimbursements from the responsible party for cost of the Capri cleanup (up to $1,300,000).

At the time this analysis was prepared, the department had not submitted any type of notification regarding the planned expenditure changes. The 1984 Budget Act authorizes the department to transfer HSA and federal funds among sites without giving prior notification to the Legislature. The department, however, is required to report quarterly to the Legislature on changes to its planned allocations and actual encumbrances and expenditures. The first quarterly report did not identify any changes to the original plan. Moreover, recoveries from Capri cannot be spent until the Legislature is notified through the Section 28 process, since the 1984 Budget Act did not authorize the expenditure of any funds from responsible parties.

We recommend that prior to budget hearings, the department submit detailed information on the source and proposed uses of HSA funds that the department intends to make available for early implementation of the bond act program. The department also should indicate whether it intends to reimburse the HSA for any of these expenditures once bond act funds have been appropriated.

Current-Year Inappropriate Use of Funds

We recommend that prior to budget hearings, the department identify (1) staff redirected in the current year to implement the Hazardous Substance Cleanup Bond Act and (2) how it intends to reimburse the funding sources that supported those positions.

In anticipation that the voters would approve the Hazardous Substance Cleanup Bond Act, Ch 1736/84 (AB 3879) appropriated $800,000 from the HSA to the department for staff in the current year. The department intends to use these funds to administratively establish 39 positions, beginning in January and February 1985, including 30 in the TSCD. Since the bond act was approved by the Legislature, the department has redirected an increasing number of staff to this activity, including at least 6 positions in the Administration Division and 15 positions in the TSCD. Funding for these positions has come from the General Fund, federal funds, the HWCA, and the HSA.

We recommend that prior to budget hearings, the department (1) report on the current-year costs incurred by each of its funds for bond-related activities and (2) identify how it intends to correct this inappropriate use of funds.

Current-Year Reappropriation Overstated

We recommend that the department explain why it has not submitted a corrected budget revision to the Controller in order to reduce the amount of the reappropriation by $4,503,000. We further recommend that the department notify the Legislature of federal funds received and anticipated to be received during the current year.

The 1984 Budget Act reappropriated unexpended state and federal funds in the Hazardous Substance Account remaining from 1983–84. With respect to federal funds, the act specified that only funds *actually received or awarded* were reappropriated.

The budget indicates that the amount of the reappropriation from federal funds was $14,484,000, which is the 1983 Budget Act expenditure authority less actual expenditures ($15.1 million less $616,000). The department informs us, however, that it actually received or was awarded only $10,597,000. Thus, only $9,981,000 was actually available for reappropriation. As a result, the reappropriation calculated by the department and authorized by the Controller is $4,503,000 more than the level authorized by the Legislature.

This is not simply a bookkeeping problem. The "excess" reappropriated funds are, in effect, being "used" by the department in the current year. The department is counting federal funds that have been received in the current year against the excess expenditure authority with the result that it is *not notifying* the Legislature prior to spending this new money.

We recommend that the department explain why it has not submitted a corrected budget revision to the Controller in order to reduce the amount of the reappropriation by $4,503,000. We further recommend that the department report to the Legislature on the amount of federal funds received or expected to be received during the current year.

E. BUDGET ISSUES

Distinctions Between Funding Sources for Expenditures are Murky

We withhold final recommendation on the division's budget pending receipt from the department of information documenting the appropriate funding sources for both the ongoing hazardous waste programs and the augmentations proposed in the budget.

During the past 13 years, as the state has identified problems related to disposal of hazardous waste, the Legislature created both programs for responding to the problems and revenue mechanisms for funding the programs. In the past, it has been relatively easy to determine which activities should be supported by the Hazardous Waste Control Account (HWCA) and which should be supported by the Hazardous Substance Account (HSA). Recently, however, the picture has become much more complicated, for two reasons: (1) site mitigation activities can be funded from either the HSA or from bond proceeds and (2) many sites that are candidates for *mitigation* are also subject to *enforcement* actions and are identified as the result of permit reviews or inspections—activities that have been funded by the HWCA in the past.

The budget proposes a number of augmentations, many of which, in our judgment, are proposed from inappropriate funding sources. For example:

- An augmentation of $3.2 million for laboratory services is funded entirely from the bond proceeds, even though a portion of the identified workload results from regulatory activities.
- The $563,000 that would be used to erect fences and post notices at

DEPARTMENT OF HEALTH SERVICES—Continued

contaminated sites is funded from the HWCA, although either the HSA or the bond funding would be a more appropriate funding source since fencing is considered an interim remedial action.

- An augmentation of 21.5 positions and $741,000 to support the TSCD is funded exclusively from bond funds, even though part of the justification provided by the department cites workload resulting from functions that are unrelated to implementation of the bond act.

Although we have identified numerous problems with the budget's proposed allocation of costs among various funds, we are unable to recommend a revised allocation because the workload information provided by the department is not adequate for that purpose. We therefore recommend that prior to budget hearings, the department submit an in-depth analysis of the appropriate source of funds for each of its ongoing programs, as well as for each of the augmentations proposed in the budget. We withhold recommendation of the division's budget, pending receipt of this information. The department's review should identify (1) functions and resources that are appropriately funded from only one source (such as alternative technology funded by the HWCA), and (2) functions that are appropriately funded from multiple sources because they serve the entire program (such as enforcement investigators, laboratory services, and administration). For the latter functions, the department should clearly identify the assumptions used in allocating the costs among the various funding sources.

HSA Expenditure Plan Once Again Is Incomplete

We withhold recommendation on proposed expenditures of $10,189,000 from the HSA, $21.8 million in federal funds, and $10,850,000 in responsible party funding, until the department submits an expenditure plan for these funds.

The budget for HSA expenditures is almost identical to the approved budget for the current year. It does not account for the significant changes in HSA expenditures that will result from the availability of bond act funds.

In past years, approximately $4.5 million has been available from the HSA to fund contracts for site mitigation costs. With the availability of bond act funds, HSA funds will not be needed for site characterization or remedial action. The bond act, however, precluded use of bond act funds to develop and adopt remedial action plans. Presumably, the HSA will fund these activities. The department, however, has not provided an estimate of the amount of staff and contract funds needed from the HSA. The act also authorized the use of HSA funds for the costs of a new arbitration panel. The budget does not identify any funds for that purpose. The act also apparently precludes bond funds from being used for preliminary assessments to determine if sites should be ranked. The department informs us that it may need to use HSA funds for these assessments but has not yet submitted a proposal to that effect.

The funds budgeted for contracts may not be sufficient to support these new potential demands on the HSA. It is possible that if these demands are to be met, other activities supported by the HSA, such as victims' compensation, emergency response equipment, or core staffing, will have to be reduced.

The department advises that it intends to submit a revised expenditure proposal to the Legislature in a budget amendment letter later in the spring. This is the third consecutive year that the expenditure plan in the budget for the Superfund program has been incomplete.

The department contends that it is unable to develop an expenditure plan until the site-specific ranking list is released on January 10 of each year. We do not believe this explanation is valid. It should be possible for the department to have a spending plan complete in time for inclusion in the Governor's Budget. Indeed, the department, itself, demonstrated that this could be done by submitting a site-specific expenditure plan for bond act funds simultaneously with the associated site-ranking list in January 1985.

Without an expenditure plan for the requested funds, we have no alternative but to withhold recommendation on proposed HSA expenditures for 1985–86, as well as on budgeted federal and responsible party funding. Accordingly, we recommend that the department submit a revised budget proposal that includes:

- Site-specific expenditure plans.
- Identification of changes in HSA funded contracts and staff functions due to bond implementation.
- A corrected fund condition statement with revenue, expenditure, and carry-over reserve detail for 1983–84, 1984–85, and 1985–86.

Hazardous Substance Cleanup Fund Potentially Oversubscribed

The department's expenditure plan for bond act funds earmarks $9,576,000 for state staff and administrative costs during the period March 1985 through December 1986. This amount makes no allowance for (1) the costs incurred by the Treasurer's office to sell and process the bonds, (2) departmental overhead costs, (3) statewide pro rata charges, or (4) funds for employee compensation increases in 1985–86 and 1986–87. The department could not tell us how it would fund these items. Presumably, the department would reduce funding for site contracts or other administrative expenditures.

In addition, the plan does not make any allowance for expenditures occurring after December 1986. If any program delays should occur, however, some staff will be needed to continue oversight of the program beyond 1986. Finally, the expenditure plan assumes that none of the sites will require a mitigation method that requires ongoing operation and maintenance, such as aeration or carbon filtration systems to treat contaminated groundwater. It is likely that at least some sites will require an ongoing system, and thus impose ongoing costs.

Staffing Needed But Not All From Bond Act

We withhold recommendation on the funding source proposed for 72 new positions in the Toxic Substances Control Division and 21.5 new positions in the Administration Division until the department completes its evaluation of appropriate funding sources for site mitigation activities.

The budget requests $6,842,000 from the Hazardous Substance Cleanup Fund (HSCF) for 109.5 positions and associated support costs. This includes $3,206,000 and 16 positions for laboratory services, $2,896,000 and 72 positions for technical and management activities in the TSCD, and $740,000 and 21.5 positions for services from the Administration Division, including contract procurement, accounting, personnel, and legal consultation. We discuss the laboratory funding in more detail elsewhere in this analysis.

DEPARTMENT OF HEALTH SERVICES—Continued

Our review of the workload related to technical and administrative staffing indicates that the positions requested are justified. The budget justification, however, cited workload that cannot be funded by the HSCF, including (1) preliminary assessments at unranked sites and (2) accounting, personnel, and legal staff to meet workload demands that existed prior to implementation of the bond act.

The department informs us that it is reviewing the workload of the proposed new positions to determine how much should be funded from the HSA or HWCA, rather than from the HSCF as proposed in the budget. We withhold recommendation on the $3,636,000 requested from the HSCF until the department provides its revised proposal for distribution of staff by funding source.

Inadequate Justification for Laboratory Augmentation

We withhold recommendation on 16 positions and $3.2 million requested from the Hazardous Substance Cleanup Fund (HSCF) until the department submits an analysis of (1) laboratory workload, by program category, (2) alternative methods of obtaining services, (3) the appropriate distribution of expenditures to different funding sources, and (4) the effect of equipment purchases on employee productivity.

The budget requests 16 new state employees, 20 new contract employees, and $3,206,000 from the HSCF to provide additional laboratory analysis and consultation for the TSCD. The Hazardous Materials Laboratory currently has 32.5 positions and $1,652,000 from various sources to provide support to the existing enforcement, permitting, and site mitigation activities. The laboratory is in the Health Protection Division.

We have no analytical basis on which to review this request because the information submitted to date is inadequate and inconsistent. Specifically, we have identified problems with the request in the following four areas:

1. ***Workload.*** Demand for *additional* laboratory services comes from three sources: (a) a five-month backlog in analyses of organic chemical contamination in the current year, (b) projected increases in requests for analyses from the enforcement program, due to current-year augmentations, and (c) the new bond act program to clean up contaminated sites. The department was unable to provide any documentation for the estimated number of lab determinations needed in the budget year or the portion of these determinations that can be attributed to each of the three factors noted above. Nor was the department able to identify how much would be spent for laboratory services in connection with site characterization work performed by regional contractors and funded by the HSCF.

2. ***Method of Providing Service.*** The budget proposes to provide laboratory services in four ways: (a) using state employees and equipment, (b) by contracting with the nonprofit Public Health Foundation for employees to be located in the state laboratory, (c) by contracting with private laboratories directly, and (d) through contracts between the regional contractors under the bond program and private laboratories acting as subcontractors. The department was unable to provide an analysis showing the relative costs incurred using each of the four methods, or to document that its proposed mix of methods is best in terms of speedy turnaround time, adequate capacity for emergencies, quality of results, and lowest costs.

3. ***Funding Sources.*** The entire laboratory augmentation is funded

by the HSCF, even though much of the workload increase is generated by the enforcement and inspection program, which is primarily funded by the HWCA and federal RCRA.

4. ***Equipment Request.*** The productivity rates of state positions is dependent on the type of equipment available and the opportunity to automate manual functions. The budget assumes a 58 percent increase in the number of determinations per technical position per year as a result of equipment purchases and improved analytical methods. The department, however, has provided neither a specific listing of the $542,000 in equipment requested in the budget nor an analysis of the productivity increases made possible by the specific pieces of equipment. Nor has the department demonstrated that the proposed funding level for equipment will be adequate to generate a 58 percent productivity increase at the same time that new staff must be hired and trained.

Because the department's proposal is inconsistent and lacks adequate justification, we withhold recommendation on the proposed $3.2 million augmentation for laboratory services. We recommend that prior to budget hearings, the department submit a complete analysis of laboratory services to support the TSCD in both the current and budget years, including analyses of (1) anticipated workload, by program category, (2) alternative methods of obtaining services, and (3) the proper distribution of costs among the different funding sources. The analysis of alternative methods for obtaining service should consider the cost, timeliness, quality, and ability to meet peak demand workloads or emergencies. It should also analyze productivity gains by state employees resulting from the requested equipment.

Bond Repayment

We recommend that the Legislature appropriate $5 million from the Hazardous Substance Account for bond debt service in order to reflect the provisions of the bond act and reduce demands on the General Fund. We further recommend that the department and the Department of Finance identify the amounts available from other non-General Fund sources that could be used for debt service in order to further reduce the General Fund costs.

The bond act identifies seven potential sources for repayment of the bonds, in the following priority order: (1) interest income and premiums earned on the bond proceeds, (2) recoveries from those responsible for contamination, (3) federal Superfund monies that are available to finance remedial actions at sites where bond proceeds have been used, (4) monies appropriated by the Legislature from the Hazardous Substance Account (HSA), (5) payments of $5 million per year from the HSA, (6) any other available source, and (7) the General Fund. Interest and redemption of the bonds would be supported by the General Fund *only* if the other sources are not sufficient to fully liquidate the bonds. The act provides that the HSA shall be extended indefinitely to repay, with interest, any General Fund outlays made to retire the bonds. The bond act also increased the amount of annual revenue to the HSA from $10 million to $15 million and provided that the additional $5 million be used to pay the debt service on the bonds.

The budget for General Fund debt service identifies $7,250,000 in 1985–86 expenditures for the department's bond program, including $4,750,000 for interest and $2.5 million for redemption of outstanding bonds. The department's expenditure plan shows that between $5 million and $11.4

DEPARTMENT OF HEALTH SERVICES—Continued

million in funds will be available from the alternative sources for debt service costs in 1985–86. *The budget, however, does not propose to appropriate any of these funds to pay the debt service or to reimburse the General Fund.*

We recommend that the department and the Department of Finance review the estimated debt service costs and identify the amounts available for appropriation from other sources so that the Legislature can minimize the cost of debt service to the General Fund. In the meantime, we recommend that the Legislature appropriate in the Budget Bill $5 million available from the HSA and any additional amounts identified by the department, in lieu of using a corresponding amount from the General Fund for this purpose.

Fencing Contaminated Sites

We withhold recommendation on two positions and $563,000 requested for fencing contaminated sites until the department submits an implementation schedule, assessment of need, and information on the availability of other funding sources.

Chapter 1538, Statutes of 1984 (AB 2494), requires the department and county health officers to (1) post signs and secure sites contaminated by hazardous waste or (2) order property owners to post the signs and secure the sites. It also requires the department to (1) by January 20, 1985, notify each county of all potential abandoned sites identified within its jurisdiction and (2) by January 30, 1985, review and issue orders for any site where the department's preliminary assessment indicates contamination. The department informs us that it will not meet these deadlines because it does not have staff or funding for this activity in the current year.

The budget for 1985–86 requests two positions and $563,000 from the Hazardous Waste Control Account (HWCA) to notify local agencies, order property owners to control access, and fence 15 sites per year.

We have identified three problems with the budget proposal. First, the request does not (1) include a schedule for implementing the program, (2) describe how this new responsibility will be integrated into existing enforcement or site mitigation activities, or (3) assess the number of sites where fencing is needed.

Second, the proposed funding source is inappropriate. Site fencing is an interim remedial measure that is part of cleaning up a contaminated site. As part of site mitigation, it should be supported by the Hazardous Substance Account (HSA) or funds available from the Hazardous Substance Cleanup Bond Act. In fact, $100,000 is available from the HSA for site fencing in the current year. We are unable to determine whether this funding will be continued in 1985–86, however, because the department failed to submit an expenditure plan for the HSA. Bond act funds may be used for fencing at sites ranked on the state list if it is justified on public health grounds as an interim remedial measure.

We withhold recommendation on the funding and staffing requested for fencing, because the request is inadequately justified and the funding source is inappropriate. We recommend that, prior to budget hearings, the department submit (1) a schedule and plan for implementing the act, (2) a description of how these new responsibilities will be integrated into existing site mitigation or enforcement activities, (3) an assessment of the number of sites where fencing is needed, and (4) comments on the availability of bond act or HSA funds for fencing and signs at ranked sites.

Staff Not Needed to Revise Ranking Regulations

We recommend deletion of $83,000 requested from the Hazardous Waste Control Account (HWCA) and two positions that would be used to revise regulations for ranking sites requiring mitigation because other staff is available for this purpose.

The budget proposes an augmentation of $83,000 from the HWCA and two positions to (1) revise the regulatory criteria for including contaminated sites on the state priority ranking list (SPRL) and (2) reevaluate sites using the new criteria. Chapter 1682, Statutes of 1984 (SB 1474), requires the department to include in its regulatory ranking criteria the estimated cost of remedial action and the resulting public health benefits for each site.

Our analysis identified two major problems with the budget proposal. First, the department has not documented that this activity justifies new staff. Specifically, (1) the staff that developed regulations during 1983–84 for the initial ranking criteria has not been deleted, (2) the department has already developed a methodology for incorporating public health benefits and costs, and (3) the 1985 SPRL reflects the revised methodology in its ranking of 180 sites. Therefore, the majority of the work related to developing the regulations and revising the ranking list has already occurred. Second, the HWCA is the wrong funding source to support ranking activities. The HSA was established to fund remedial actions and is the appropriate account to fund the development of ranking lists and regulations.

Thus, we recommend deletion of $83,000 (HWCA) and two positions requested in the budget because much of the work has already been done and other staff can absorb the remaining workload.

Planning and Reporting

We recommend the enactment of legislation requiring the department to develop annual work plans and report periodically to the Legislature.

During the last three years, the Legislature has required the department to develop an annual work plan and report periodically on its progress in meeting the objectives set forth in its plan. Both the work plan and the periodic reports have proven to be useful—both to the department in managing its resources and to the Legislature in reviewing the department's priorities and evaluating its performance.

We therefore recommend that legislation be enacted to make permanent the requirements established in the *Supplemental Report of the 1984 Budget Act.*

County Inspector Interns

We withhold recommendation on $841,000 requested from the Hazardous Waste Control Account (HWCA) for contracts with counties to train staff, because the department has not adequately justified the request. We recommend that the department submit additional justification for this proposal prior to budget hearings.

The budget proposes $841,000 from the HWCA to contract with counties for the services of 20 county environmental health inspectors while training them in state and federal hazardous waste control laws. In principle, the state would benefit by having 20 additional staff available to conduct

DEPARTMENT OF HEALTH SERVICES—Continued

inspections and investigations. The counties would benefit by the training and experience their employees would gain from the state work experience. These internships would last from six months to two years.

The role of county health departments in the regulation of hazardous waste has grown tremendously in the last three years through negotiated memoranda of understanding (MOUs) between the state and 10 counties. County programs, which are funded by local fees, complement the state program by inspecting waste generators, responding to citizen complaints, and providing assistance in emergencies.

The department justifies the request on two bases: (1) the desirability of training county staff in the enforcement of state and federal hazardous waste laws and the operation of the state program and (2) the need to augment the staff available in the regional sections for inspections and enforcement. The department has not, however, described the type of training it intends to provide, estimated the amount of state supervisory staff needed to oversee these positions, or demonstrated that internships are the most effective means of training county staff. Nor has the department demonstrated that the existing staff in the regional offices is not sufficient to meet either current work plan goals or program demands.

We therefore withhold recommendation on this request. We recommend that prior to budget hearings, the department submit the following information to the Legislature: (1) a more specific description of the internship program, including the type of training to be provided, the amount and cost of supervision needed, and the selection criteria for choosing counties and specific individuals for inclusion in the program, (2) a comparison of the cost and effectiveness of the internship proposal relative to other training systems, (3) documentation that regions need the additional staff, and (4) a description of the specific outputs and benefits to the state program from the 20 county staff.

Waste Reduction and Alternative Technology

We recommend that $100,000 requested from the Hazardous Waste Control Account (HWCA) for a contracted analysis of economic incentives for waste reduction be deleted because adequate funds are available in the department's base contract budget to accomplish this objective.

The budget proposes an augmentation of $648,000 from the HWCA and four positions to increase the department's efforts to ban land disposal of selected hazardous wastes and to reduce the production of wastes at the source. Specifically, the department requests $148,000 and four positions to monitor and evaluate the effectiveness of existing regulations that restrict selected waste from land disposal. Although regulations to ban waste were adopted in January 1983, no follow-up or evaluation has been done. The purpose of the proposed evaluation is to determine whether the regulatory approach is effective and whether additional wastes should be banned.

The department also requests $500,000 in contract funds to develop a new program for encouraging waste reduction at the point of generation. This amount includes (1) $400,000 for industry-specific studies of potential changes to production practices and materials and (2) $100,000 for the second year of a two-year study of economic incentives to encourage waste reduction.

Our analysis indicates that the funding for the current-year contract is continued into the budget year and that the augmentation therefore is not needed. Accordingly, we recommend deletion of $100,000 from the HWCA.

Contracting Out Financial Responsibility

We withhold recommendation on the proposed contracting out of financial responsibility reviews until the department documents that the savings will occur and the quality of work will be maintained.

The budget proposes to eliminate six positions and contract out financial responsibility activities, for a projected savings of $35,000 to the HWCA. Chapter 90, Statutes of 1982 (SB 95), requires hazardous waste facility operators to (1) provide assurance of their ability to pay for the closure and maintenance of the facility at the end of its useful life and (2) maintain liability coverage for any damage caused by accidents or long-term contamination. The Procedures and Regulations Development Section is responsible for reviewing the financial documentation and referring facilities that violate regulations to the enforcement unit. Of the six positions, 3.5 were added in the current year. The existing staff is effectively performing the required reviews and has referred a number of noncomplying facilities for enforcement action.

Our analysis indicates that the department has not adequately documented (1) the basis for its $35,000 in identified savings or (2) that an outside contractor will be able to provide the same quality of work as currently performed by state employees. We withhold recommendation until the department provides additional documentation addressing these issues.

Other Budget Proposals

We recommend approval.

The budget requests increases from the Hazardous Waste Control Account for enforcement support staff ($362,000 and seven positions) and contract health and safety consultants ($277,000).

The additional enforcement staff includes two investigators, three geologists, a soil specialist, and a staff toxicologist to provide technical advice to the regulatory staff in the regional sections. The consultants would review health and safety plans, provide on-site monitoring, and train other staff. The regional sections received significant staffing augmentations in the current year for both permitting and inspections with no accompanying increases in technical support.

We recommend approval of the proposed augmentations, in light of these workload increases.

5. CALIFORNIA MEDICAL ASSISTANCE PROGRAM (Medi-Cal)

The California Medical Assistance program (Medi-Cal) is a joint federal-state program initially authorized in 1966 under Title XIX of the federal Social Security Act. The purpose of Medi-Cal is to assure the provision of necessary health care services to public assistance recipients and to other individuals who cannot afford the costs of needed health care.

The budget proposes Medi-Cal expenditures of $4,463 million ($2,145 million General Fund) in 1985–86, including $4,342 million ($2,105 million General Fund) for local assistance and $120 million ($40 million General Fund) for state administration. The total level of General Fund expenditures proposed for Medi-Cal in the budget year exceeds estimated expenditures for the current year by $127 million, or 6.3 percent.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 20 shows Medi-Cal expenditures for 1983–84 through 1985–86.

Table 20
Medi-Cal
Expenditures and Funding Sources
1983–84 through 1985–86
(dollars in thousands)

	Fund	*Actual 1983–84* [a]	*Estimated 1984–85*	*Proposed 1985–86*	*Percent Change*
Health care services	General	$1,951,662	$1,920,873	$2,043,255	6.4%
	All	3,829,547	4,085,161	4,192,043	2.6
County administration	General	57,464	49,475	54,606	10.4
	All	104,320	134,686	124,020	−7.9
Claim processing	General	9,553	7,787	7,056	−9.4
	All [b]	32,053	29,836	26,327	−11.8
Subtotals	General	$2,018,679	$1,978,135	$2,104,917	6.4%
	All	3,965,920	4,249,683	4,342,390	2.1
State administration	General	37,686	39,900	39,856	−0.1
	All	105,957	120,934	120,206	−0.6
Totals	General	$2,056,365	$2,018,035	$2,144,773	6.3%
	All	4,071,877	4,370,617	4,462,596	2.1

[a] The local assistance figures are from the Health Care Deposit Fund and Special Financing Fund statements. They do not match the department's budget schedules.

[b] Includes $246,000 in 1983–84, $257,000 in 1984–85, and $257,000 in 1985–86 for processing County Medical Services program claims.

Chart 1 shows Medi-Cal program expenditures since 1977–78. The level of spending has increased at a moderate rate since 1983–84, when there were sharp decreases due to the 1982 Medi-Cal reforms. Program expenditures from all funds are expected to be 7.7 percent higher in the current year than in 1983–84, and 2.1 percent higher in 1985–86 than in the current year.

Federal, State, and County Responsibilities Under the Medi-Cal Program

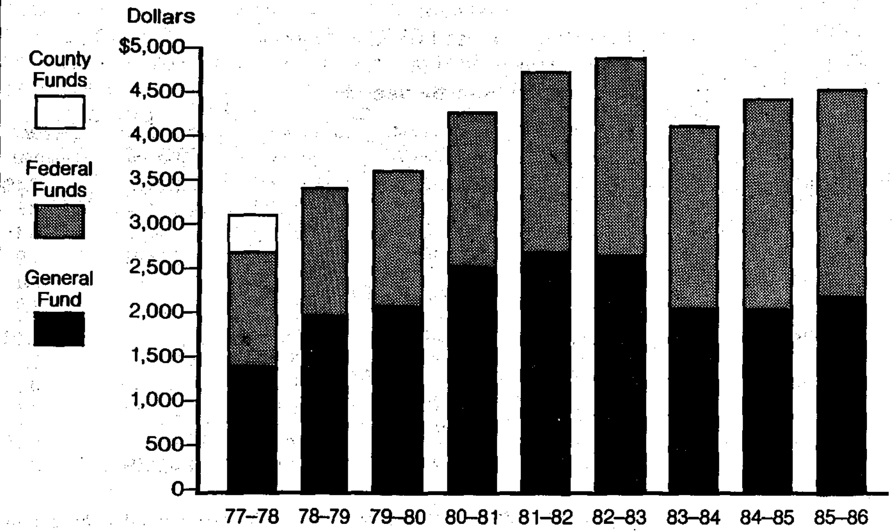
The administration and funding of Medi-Cal are shared by the federal and state governments. Counties perform certain tasks on behalf of the state.

The state Department of Health Services (DHS) develops regulations, establishes rates of payment to health care providers, reviews requests for authorization of certain types of treatment prior to delivery, audits provider costs, recovers payments due from private insurance companies and other sources, reviews county eligibility determinations, and manages various contracts with private vendors for processing of provider claims. Other state agencies, including the California Medical Assistance Commission and the Department of Social Services, perform Medi-Cal-related functions under agreements with DHS.

County welfare departments, along with the health department in Los Angeles County, determine the eligibility of applicants for Medi-Cal. In addition, many counties receive Medi-Cal reimbursements for services delivered to Medi-Cal-eligible individuals treated in county hospitals and outpatient facilities.

The federal Department of Health and Human Services, through its Health Care Financing Administration, provides policy guidance and financial support for the Medi-Cal program.

Chart 1
Medi-Cal Expenditures by Funding Source 1977–78 through 1985–86 (in millions)



Eligibility

Persons eligible for Medi-Cal fall into three major categories: categorically needy, medically needy, and medically indigent. The *categorically needy* (cash grant recipients) consist of families or individuals who receive cash assistance under the Aid to Families with Dependent Children (AFDC) or Supplemental Security Income/State Supplementary Payment (SSI/SSP) programs. The categorically needy automatically receive Medi-Cal cards and pay no part of their medical expenses. (The budget includes a proposal, discussed below, to extend certain copayments to categorically needy Medi-Cal beneficiaries.)

The *medically needy* include families with dependent children and aged, blind, or disabled persons who are ineligible for cash assistance because their income exceeds cash grant standards. These individuals can become eligible for Medi-Cal if their medical expenses require them to "spend down" their incomes to 133 percent of the AFDC payment level specified for their household size.

The *medically indigent* are those who are not categorically linked (that is, they do not belong to families with dependent children and are not aged, blind, or disabled) but who meet income and share-of-cost criteria that apply to the medically needy category. Coverage under the medically indigent program is limited to (1) persons who are under the age of 21,

DEPARTMENT OF HEALTH SERVICES—Continued

(2) pregnant women, and (3) persons residing in long-term care facilities.

Eligibles and Users in 1985–86. The budget projects that an average of 2,848,100 persons will be eligible for Medi-Cal benefits each month during 1985–86. This is 7,500 less than the average number of beneficiaries eligible in the current year. The budget projects that 2,521,000 persons will be eligible to receive benefits on a fee-for-service basis and 314,000 persons will be enrolled in various prepaid plans. Of the population eligible under fee-for-service care, an average of 47 percent, or 1,187,000 persons, are expected to receive Medi-Cal benefits each month during 1985–86.

Table 21 shows the number of persons eligible for Medi-Cal in each eligibility category, as well as the percent of these eligibles who actually receive benefits.

Table 21
Average Monthly Medi-Cal Eligibles and Benefit Recipients as Percent of Fee-for-Service Eligibles By Eligibility Category 1983–84 through 1985–86 (persons in thousands)

	Average Monthly Eligibles			*Benefit Recipients as a Percent of Fee-for-Service Eligibles*		
	1983–84	*1984–85*	*1985–86*	*1983–84*	*1984–85*	*1985–86*
Categorically needy						
AFDC	1,707	1,719	1,701	37.2%	36.2%	36.6%
SSI/SSP	674	681	684	72.2	66.2	65.2
Medically needy	335	339	349	58.8	58.7	59.0
Medically indigent	110	107	106	47.5	43.7	42.0
Other [a]	9	9	9	100.0	100.0	100.0
Totals	2,835	2,855	2,848	47.0%	48.0%	47.1%

[a] Includes renal dialysis patients and refugees.

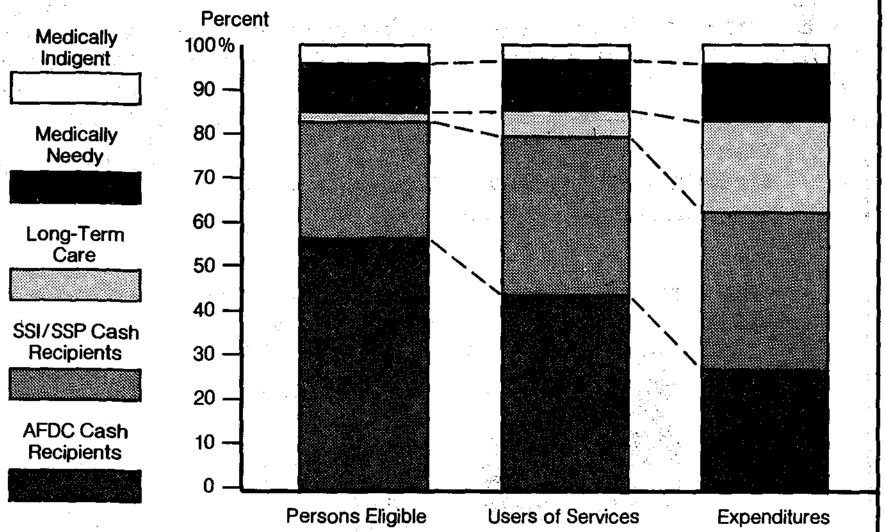
Expenditures by Eligibility Category. Chart 2 shows the percentages of eligibles, benefit recipients, and expenditures that each eligible group is expected to account for in 1985–86. Families receiving AFDC constitute 57 percent of Medi-Cal eligibles but are responsible for only 28 percent of total Medi-Cal expenditures. SSI/SSP recipients constitute 26 percent of the Medi-Cal caseload and are responsible for 35 percent of program expenditures. Medi-Cal-eligible recipients residing in long-term care represent only 2.5 percent of all Medi-Cal eligibles but consume 20 percent of Medi-Cal expenditures. The share of medical expenditures attributable to the medically indigent and the medically needy is roughly equal to their share of the Medi-Cal eligible population.

Scope of Benefits

Medi-Cal recipients are entitled to a wide range of health services, including physician, inpatient and outpatient hospital, laboratory, nursing home care, and various other health-related services. Many Medi-Cal services, however, require prior state authorization and may not be paid for unless the service is medically necessary. Not all services allowed in California are required by federal law.

Chart 2

Medi-Cal Eligibles, Users and Costs Percent by Eligibility Category 1985–86



Federal law requires states participating in the Medicaid program to provide a core of basic services, including hospital inpatient and outpatient; skilled nursing; physician services; laboratory and X-ray; home health care; early and periodic screening, diagnosis, and treatment (EPSDT) for individuals under 21; family planning; and rural health clinics (as defined under Medicare). In addition, the federal government provides matching funds for 32 optional services. California provides 30 of the 32 optional benefits.

Expenditures by Service Category

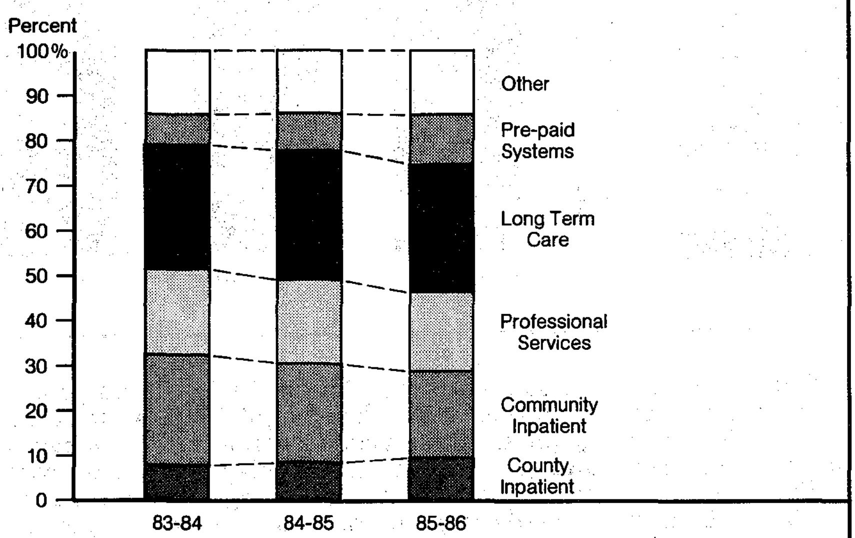
Chart 3 shows Medi-Cal spending proposed for 1985–86, by service category. The chart reflects the following major changes in the distribution of expenditures between 1984–85 and 1985–86:

- Spending on prepaid health systems is expected to increase, due to (1) a 58 percent increase in county-organized health systems' enrollment, reflecting the addition of a new county system and (2) an 8 percent increase in prepaid health plan enrollment.
- Spending on inpatient services is expected to decrease by 4 percent, due primarily to increased enrollment in prepaid systems. Payment for inpatient services provided by community hospitals is expected to decrease by 11 percent. Payment for services provided by county-owned and county-contracted hospitals, however, is expected to increase by 13 percent.

DEPARTMENT OF HEALTH SERVICES—Continued

- Expenditures for Medi-Cal funded health screening for children are expected to increase by 10 percent, of which 9 percent is due to increased caseload and 1 percent is due to increased cost per unit of service.
- Expenditures for fee-for-service physicians' services are expected to decrease by 8 percent, due primarily to increased enrollment in various prepaid health systems.

Chart 3
Medi-Cal Expenditures by Service 1983-84 through 1985-86



General Medi-Cal Budget Issues

Estimates Will Be Updated in May

We withhold recommendation on $4,192 million ($2,043 million General Fund) requested for local assistance under the Medi-Cal program, pending review of revised Medi-Cal expenditure estimates to be submitted in May.

The proposed expenditures for the Medi-Cal program are based on actual program costs through August 1984. The Department will present revised estimates in May, based on program costs through February 1984. Because the revised estimates will be based on more recent experience, the estimates will provide a more reliable basis for budgeting 1985–86 expenditures. We therefore withhold recommendation on the amounts requested in local assistance for the Medi-Cal program, pending review of the May estimates.

Receipt of Federal Funds

We recommend that as part of its May revision of expenditure estimates the Department of Finance identify (1) all unresolved funding disputes with the federal government, showing the disputed amounts and likely dates of resolution, (2) estimated recoveries of administrative costs from counties with excess denial rates, and (3) estimated recoveries of excess profits from the dental services fiscal intermediary.

Each year, California receives funds as payment for Medi-Cal services expenditures made in prior years. Most of these funds come from the federal government. Generally, it is difficult to estimate with any precision the amount of funds that the state will receive in the next fiscal year. These amounts, however, can be sizeable.

The 1984 Budget Act provided that funds received by California up to specified amounts would be used to offset the General Fund share of Medi-Cal expenditures (Provision 1). It also provided that any additional amounts received be used to fund any anticipated deficiency in the Medi-Cal program. Funds not used to offset a deficiency are to be deposited directly into the General Fund.

According to the department, California has received $98.4 million from the federal government in the current year as payment for past-year Medi-Cal costs. Of this amount, $87 million was used to offset General Fund expenditures, as provided in Provision 1 of the 1984 Budget Act, and $11.4 million was used to partially offset an anticipated Medi-Cal deficiency. In addition, the department recovered $5.8 million from counties with excess denial rates under the provisions of Ch 1594/82 and $17.4 million ($8.7 million General Fund) from California Dental Services, the fiscal intermediary that processes claims for dental services.

Although the state almost certainly will receive additional funds from a variety of sources during 1985–86, the budget makes no allowance for these funds. Consequently, the Medi-Cal program probably is overbudgeted.

In order to determine the amount required from the General Fund in 1985–86 to support the Medi-Cal program, the Legislature needs information on the amounts of additional funds likely to be received by the state. Therefore, we recommend that the Department of Finance, as part of its May revision of expenditures, identify amounts expected to be received from the federal government, the counties, and other sources.

A. MEDI-CAL HEALTH SERVICES

1. Current-Year Net Deficiency of $36.4 Million Expected

Total Medi-Cal expenditures for 1984–85 are now estimated to be $136 million more than budgeted.

The Department of Health Services (DHS) projects a General Fund deficiency of $36.4 million in the current year. This represents the net result of a $53.2 million deficiency in the budget item for Medi-Cal health services, partially offset by (a) unanticipated federal funds ($10.9 million) and (b) $5.9 million appropriated in various acts chaptered since July 1984.

Table 22 shows the amounts appropriated for Medi-Cal health services during 1984–85 and the factors responsible for the change in the estimate of expenditures. The major increases and decreases in expenditures are as follows:

DEPARTMENT OF HEALTH SERVICES—Continued

Table 22

Medi-Cal Health Care Services
Proposed Budget Changes
1984–85 and 1985–86
(dollars in millions)

	General Fund	*All Funds*
A. Funds available, 1984–85		
1. 1984 Budget Act		
a. Health benefits item	$1,805.9	$3,695.5
b. Refugee reimbursements	—	33.7
c. Provision 1, 1984 Budget Act, funds	—	81.7
d. Rate item	60.8	117.6
e. Abortion item	11.9	11.9
2. Other appropriations	5.9	9.2
Subtotals	$1,884.5	$3,949.7
B. 1984–85 changes: unanticipated current-year expenditure changes		
1. CSC claims processing catch-up	$42.8	$85.6
2. *Committee v. Rank*	14.7	12.9
3. Other real property	11.9	23.9
4. Delayed county health systems implementation	−14.4	−28.4
5. Expiration of reduced federal matching	−27.6	—
6. Provider audit settlements and other adjustments	26.3	52.6
7. Reduced dental costs	−14.0	−28.1
8. Other changes	7.6	17.1
C. 1984–85 expenditures (revised)	$1,931.8	$4,085.2
D. Projected current-year deficiency	($47.3)	($135.5)
E. Proposed funding for deficiency		
1. Unbudgeted federal funds	10.9	—
2. Unfunded deficit	(36.4)	(135.5)
F. Adjusted 1984–85 expenditures	$1,920.9	$4,085.2
G. Budget-year changes		
1. Decreases in users	−$38.8	−$62.8
2. Full-year cost of 1984–85 provider rate increases	16.2	32.3
3. 1985–86 provider rate increases	41.2	82.4
4. Other changes in costs per unit of service	36.8	71.5
5. 1985–86 beneficiary COLAs	14.0	27.9
6. Provider audit settlements and other adjustments	12.0	24.1
7. One-time claims processing speed-ups	−50.0	−99.8
8. Disability review changes	5.2	10.4
9. Abortion control language	−13.9	−12.1
10. Nonsteroidal anti-inflammatory drugs	3.3	6.5
11. Home- and community-based services	—	4.0
12. Copayment proposal	−2.0	−4.0
13. Reduction in federal audit exceptions	−4.0	−4.0
14. Reduced cost-per-discharge savings	9.3	15.3
15. Ch 1621/84 (AB 2845)—long-term care	5.4	10.8
16. Delayed "55 percent occupancy" savings	−7.7	−10.3
17. New county health systems	3.9	7.8
18. Ch 1622/84 (AB 2655)—open drug formulary pilot	1.9	3.8
19. SSI/SSP buy-in computer match	−4.1	−8.3
20. Decreased federal receipts	92.7	—
21. Other changes	1.0	11.2
H. 1985–86 expenditures (proposed)	2,043.3	4,192.0
I. Change from 1984–85 (adjusted)		
Amount	$122.4	$106.9
Percent	6.4%	2.6%

Note: Detail may not add to totals due to rounding.

CSC Claims Processing Speed-Ups ($50.0 Million). There has been a one-time speed-up in CSC claims processing that has resulted in unanticipated costs of $99.8 million ($50.0 million General Fund). The speed-up has reduced claims backlogs and is not expected to recur in 1985–86.

Committee v. Rank ($14.7 Million). The First District Court of Appeals has ruled that control language in the 1984 Budget Act limiting the use of Medi-Cal funds for induced abortions is not valid. The result is a net increase in total costs of $12.9 million, and a net increase in General Fund costs of $14.7 million. (The total cost is less than the General Fund cost because the court decision results in federal funds savings of $1.8 million.)

Other Real Property ($11.9 Million). Regulations to implement the provisions of AB 223 (Ch 328/83) regarding exemptions of property owned by persons in long-term care were issued but withdrawn. These regulations had been expected to result in savings of $23.9 million ($11.9 million General Fund).

Provider Audit Settlements and Other Adjustments ($26.3 Million). The DHS now estimates that $52.6 million ($26.3 million General Fund) less will be received from these sources during 1984–85 than it assumed when preparing the May 1984 estimate. This change results in a corresponding increase in costs.

Delays in County Health System Implementation (—$14.4 Million). Implementation of four county health systems in 1984–85 has not occurred as planned. The budget assumes that one of these systems will begin operation in 1985–86. Postponement of these systems' implementation dates results in a savings of $28.4 million ($14.4 million General Fund) because these organized systems require earlier payment of beneficiary costs than in the fee-for-service payment system.

Expiration of Reduced Federal Matching (—$27.6 Million). The May 1984 estimate assumed that the reductions in federal matching instituted by the Omnibus Budget Reconciliation Act of 1981 would be continued by the U.S. Congress. The law requiring the reductions, however, was not extended, resulting in reductions in General Fund costs during 1984–85.

Reduced Dental Costs (—$14 Million). Net payments for dental services and fiscal intermediary costs are projected to be $28.1 million ($14 million General Fund) less than the amounts appropriated. This is due to recovery of excess profits from the dental services fiscal intermediary and lower-than-anticipated reimbursement and utilization rates.

2. 1985–86 Budget Estimates General Fund Increase

The budget proposes $4,192 million ($2,043 million General Fund) for Medi-Cal health care services in 1985–86. The General Fund request is $122 million, or 6.4 percent, above estimated current-year expenditures. Table 22 summarizes the major changes in costs that account for the increase. The most important of the factors resulting in major cost changes are as follows:

1985–86 Provider Rate Increases ($41.2 Million). The budget proposes various provider rate increases, for a total cost in 1985–86 of $82.4 million ($41.2 million General Fund). The specific proposals are discussed elsewhere in this analysis.

DEPARTMENT OF HEALTH SERVICES—Continued

1985–86 Beneficiary Cost-of-Living Adjustments ($14.0 Million). The budget proposes 5.3 percent cost-of-living increases for AFDC recipients, as required by statute. (The increase is based on the Department of Finance's estimate of the increase in the California Necessities Index during 1984.) The increases in the AFDC payment levels are expected to increase Medi-Cal costs by $27.9 million ($14.0 million General Fund).

Full-Year Cost of 1984–85 Provider Rate Increases ($16.2 Million). The 1984 Budget Act and Ch 1466/84 (AB 2928) provided rate increases ranging from 3.0 to 10.4 percent for Medi-Cal providers. These increases result in an added $32.3 million ($11.2 million General Fund) in costs during 1985–86.

Provider Audit Settlements and Other Adjustments ($12.0 Million). The 1985–86 estimate assumes a decrease of $24.1 million ($12.0 million General Fund) in the amounts available to offset claim payments. These offsets are made to reflect expected settlements, accounts receivables, and other offsets that will be reflected in claims payments during the budget year.

Disability Review Changes ($5.2 Million). The budget includes an additional $10.4 million ($5.2 million General Fund) to reflect changes in the policies for reviewing the disability of SSI/SSP recipients. A portion of the added costs results from the requirement, established in the *Lopez v. Heckler* case, that a disability review must show a medical improvement in the person's condition before a person can be discontinued from SSI/SSP. The remaining costs result from a moratorium on disability reviews, which is expected to continue until new regulations are issued to reflect recent federal legislation concerning disability reviews.

Decrease in Federal Receipts ($92.7 Million). During 1984–85, California received a total of $92.7 million in federal funds that had been withheld in prior years. The budget assumes that no such funds will be received in 1985–86.

Reduced Cost-Per-Discharge Savings ($9.3 Million). In July 1980, this system of reimbursement established a limit on the rate of increase for certain hospital costs, based on national hospital cost inflation. Savings under the system are expected to decrease by $15.3 million ($9.3 million General Fund) in 1985–86 due to hospital contracting.

Abortion Control Language (—$13.9 Million). The budget proposes control language identical to that approved in the 1984 Budget Act limiting the use of Medi-Cal funds for induced abortions. This results in a net savings of $12.1 million ($13.9 million General Fund) in the cost of abortions.

Fifty-Five Percent Occupancy Standard (—$7.7 Million). Excess costs due to the 55 percent occupancy standard cannot be recouped by the state until all administrative appeals have been exhausted. This is expected to occur during the budget year, resulting in a savings of $10.3 million ($7.7 million General Fund).

One-Time Claims Processing Speed-Ups (—$50.0 Million). During 1984–85 there were one-time claims processing speed-ups due to (a) reduced backlogs at the fiscal intermediary and (b) initiation of tape-to-tape computerized billing for Medi-Cal claims. These resulted in one-time costs in 1984–85 of $85.6 million ($42.9 million General Fund) and $14.2 million ($7.1 million General Fund), respectively. These one-time costs will not occur in 1985–86.

Recent Legislative Changes

The budget contains $36.4 million ($18.1 million General Fund) to implement legislative changes made in bills chaptered during 1984. Table 23 shows the specific bills enacted and the amounts included in the 1985–86 budget to fund their provisions.

Table 23
Medi-Cal
1985–86 Budgeted Costs of Legislation Chaptered in 1984 [a]
(dollars in millions)

Legislation	*Provisions*	*General Fund*	*All Funds*
Ch 1447/84 (AB 1557)	Conforms Medi-Cal to federal changes in: 1. AFDC eligibility rules 2. Medically needy share-of-cost calculations 3. Continuing Medi-Cal eligibility for certain discontinued AFDC families	$5.6	$11.1
Ch 1610/84 (AB 2440)	Deems all breast reconstructive surgery as medically necessary	1.0	2.1
Ch 1622/84 (AB 2655)	Establishes open drug formulary pilot project	1.9	3.8
Ch 1621/84 (AB 2845)	1. Increases long-term care personal needs allowance from $25 to $35 2. Requires nursing homes to provide laundry and haircuts as part of Medi-Cal rate	6.9	13.8
Ch 1466/84 (AB 2928)	Increases rates for prosthetics and orthotics by 5 percent	0.1	0.2
Ch 1649/84 (AB 2976)	Increases rates for drug dispensing fees by 5 percent	2.3	4.8
Ch 1606/84 (AB 3266)	Allows bone marrow transplants as a Medi-Cal benefit	0.3	0.6
Totals		$18.1	$36.4

[a] Senate Bill 1346, as passed, would have extended from three to seven days the time that a nursing home patient's bed is held for the patient's return whenever the patient is admitted to an acute care hospital. The Governor vetoed the bill on the basis that setting the bed-hold days in statute limits the department's flexibility, but implemented the provision administratively. The 1985–86 cost of the provision is expected to be $2 million ($1 million General Fund).

Budgeted Costs for Beneficiary Cost-of-Living Adjustments

Income standards for categorically needy Medi-Cal beneficiaries and maintenance need levels for medically needy and medically indigent beneficiaries are based on cash grant payment levels under the Aid to Families with Dependent Children (AFDC) and Supplemental Security Income/State Supplementary Payment (SSI/SSP) programs. Any increases in cash grant payments increase Medi-Cal costs in two ways. First, increased income standards result in increased numbers of Medi-Cal eligibles, and second, increased maintenance need levels result in reduced share-of-cost payments by medically needy and medically indigent beneficiaries.

The budget contains $27,922,000 ($13,962,000 General Fund) to fund

DEPARTMENT OF HEALTH SERVICES—Continued

increases in maintenance need levels and income standards for Medi-Cal beneficiaries resulting from the estimated 5.3 percent increase in AFDC and SSI/SSP grant levels that current law requires.

Provider Rate Increases

The budget proposes $99,456,000 ($49,161,000 General Fund) for Medi-Cal provider rate increases consisting of (1) a 6.8 percent increase in the price of prescription drug ingredients, (2) a 10.7 percent increase in the cost of hospital care not covered by negotiated contracts, and (3) a 4 percent increase for most other providers. The budget contains no funds for cost increases for the care provided by contracted hospitals. The budget assumes that any increases in contract rates negotiated by the California Medical Assistance Commission will be offset by elimination of high-cost contracts or rate reductions in other contracts.

Table 24 shows provider rate increases granted during the past three years.

Table 24
Medi-Cal Provider Reimbursement Rate Changes
1983–84 through 1985–86
(dollars in thousands)

	Rate Changes			*1985–86 Cost*	
	Actual 1983–84	*Actual 1984–85*	*Proposed 1985–86*	*General Fund*	*All Funds*
Physician	—	7.7%	4.0%	$5,239	$10,544
Dental	—	9.4	4.0	1,690	3,335
Drug dispensing	—	8.0 [a]	4.0	1,617	3,306
Drug ingredients	8.0%	7.5	6.8 [b]	3,065	6,256
Hospital inpatient					
Contract	—	—	—	—	—
Noncontract	8.2	10.4	10.7 [b]	8,109 [c]	16,177 [c]
Hospital outpatient	—	7.7	4.0	2,504	4,984
Prepaid health plans	6.9	1.9	4.0 [d]	2,543	5,001
Redwood Health Foundation	6.9	9.7	4.0 [d]	503	1,008
Skilled nursing facilities	2.9	6.3	4.0 [d]	14,811	29,454
Intermediate care facilities	1.1	3.4	4.0 [d]	1,622	3,235
State hospitals	0.3	10.2	4.0	5,243	10,486
Laboratory and pathology	—	7.4	4.0	— [e]	— [e]
Psychological, acupuncture, portable X-ray, chiropractic	—	7.7	4.0	— [e]	— [e]
Prosthetics and orthotics	—	8.0	4.0	— [e]	— [e]
Other providers	—	3.0	4.0	5,407	12,018
Totals				$52,354	$105,804

[a] This is the combined result of a 3 percent increase provided in the 1984 Budget Act and a 5 percent increase provided by Ch 1649/84 (AB 2928).

[b] Estimated increases for cost-reimbursed items.

[c] Includes $6,344,000 ($3,192,000 General Fund) for hospital services provided by prepaid health plans, Redwood Health Foundation, and county-organized health systems.

[d] Current law requires these services to be reimbursed at rates that are based on cost experience. Final increases could vary from the 4 percent proposed in the budget.

[e] Costs included under "other providers."

Proposed Language Limiting Cost-of-Living Adjustments

We recommend deletion of proposed Budget Bill language that would limit statutory cost-of-living adjustments to those allowed by the federal government.

This proposal and our recommendation are discussed as part of our analysis of the cost-of-living adjustments proposed for the Department of Social Services' public assistance programs, Item 5180-181-001.

The Administration Proposes Expanded Copayments

The budget reflects savings of $4 million ($2 million General Fund) from several proposed changes in Medi-Cal copayments. Each of these changes would require legislative action to amend current law. The proposed changes would:

- Expand the list of services requiring copayment, as shown in Table 25.
- Expand the existing exemption from copayments for persons over 65, currently limited to drug prescriptions, to include all copayments.
- Require copayments from individuals for inpatient services, except when those individuals are institutionalized.
- Reduce rates paid to providers to reflect the amount the provider is to charge for a copayment.

Table 25
Medi-Cal Program
Comparison of Current and Proposed Copayments

Service	*Current Copayments Effective April 1985)*	*Proposed Copayments* [b]	*Unit of Service*
Nonemergency use of emergency room	$5	$5	per visit
Outpatient medical and dental services	$1	$1	per visit
Prescriptions over $10	$1 [a]	$1	per prescription
Nonemergency inpatient care	—	$3 (maximum per stay: $75)	per day
Ambulance transportation	$1	$3	per trip
Nonambulance transportation	—	$1	per trip
Short-Doyle outpatient visits	—	$1	per visit
Home health services excluding in-home medical care	—	$1	per visit
Prosthetics, orthotics, hearing aids, durable medical equipment	—	$1	per item

[a] Persons 65 and over are exempt from this copayment.
[b] Under the proposal, persons 65 and over would be exempt from *all* copayments.

Table 26 shows the department's estimates of the savings that would result from the new or higher copayments. The table shows the categories of Medi-Cal recipients who would be charged copayments under the department's proposal.

The budget does not reflect any savings from a reduction in the *utilization* of services that might result from an increase in required copayments. The current copayments probably have little effect on the use of services, because many providers do not collect copayments from beneficiaries. Under the budget proposal, however, providers *may* attempt to collect copayments more frequently, to recoup the income that otherwise would

DEPARTMENT OF HEALTH SERVICES—Continued

Table 26
Medi-Cal Program
Full-Year Savings Budgeted for Copayment Reductions
By Service and Beneficiary Group
Full-Year and 1985–86 Savings
(dollars in thousands)

	Full-Year Savings				
	Blind or Disabled Persons	*AFDC Parents Who are Not Pregnant*	*Persons Ages 19 to 21*	*Total*	*Savings Budgeted for 1985–86*
Nonemergency use of emergency room	$1,498	$1,246	$129	$2,873	$885
Nonemergency inpatient care [b]	(803)	(460)	(38)	(1,301)	—
Outpatient care	2,083	2,996	207	5,287	1,628
Prescriptions over $10	1,892	843	45	2,779	856
Short-Doyle visits	508	730	50	1,288	397
Ambulance transportation	38	1	—	39	12
Nonambulance transportation	335	2	1	338	104
Home health services	73	6	1	80	25
Prosthetics, etc.	362	3	—	365	112
Totals	$6,789	$5,827	$433	$13,049	$4,019
General Fund					*$2,010*
Federal funds					*2,009*

[a] Savings budgeted in 1985–86 are 31 percent of the full-year savings, due to January 1986 implementation date and payment lags.

[b] Imposition of the copayment and corresponding reduction in reimbursement rates has not been included as part of the estimate, due to uncertainty regarding the ability of the state to apply copayments in the case of contract hospitals.

be lost as a result of the reductions in reimbursement rates. We have no basis for estimating the extent to which utilization would be reduced by increased efforts to collect copayments. Presumably, existing utilization controls already screen out many services that many beneficiaries would choose to forego to save the copayment amount.

The draft legislation proposed by the department authorizes copayments for all nonemergency hospitalizations. The budget, however, does not include any savings from the lower reimbursement rates associated with these copayments. This is because any reduction in reimbursement rates to hospitals for inpatient care may require changes in hospital contracts negotiated by the California Medical Assistance Commission. Regardless of whether the reimbursement rates are reduced, it is unlikely that the copayments would bring about any perceptible reduction in the *use* of hospital services because (1) $3 represents a small share of the cost of inpatient care, (2) existing utilization controls on hospital services may already screen out many of the hospital bed-days that a beneficiary would decide to forego in order to save the $3 cost, and (3) it is likely that a significant share of copayments charged will go uncollected.

Hospital Reimbursement Under Contracting

The Department of Health Services estimates that approximately 72 percent of inpatient hospital expenditures in 1985–86 will be paid to hospitals under the contracted per-diem rates established by the California Medical Assistance Commission. Statewide, 274 hospitals have signed contracts in the 69 health facility planning areas that the commission has declared closed to hospitals without contracts. Funds budgeted in 1985–86 for inpatient services in contract hospitals are $414,000 less than the amount estimated to be required in the current year. This represents the net effect of the following increases and decreases:

- Contracting in areas that were not previously closed and terminations of existing contracts in closed areas are expected to decrease costs by $1,656,000.
- Agreed rate changes for existing hospital contracts through October 1984 account for a savings of $369,000.
- Finally, terms of some contracts have been changed to allow separate payment of certain hospital-based physicians' services. These changes result in increased costs of $1.6 million statewide.

The budget does not include any funds for increases in hospital contract rates that may be negotiated during the balance of the current year or during the budget year.

Overall Savings Estimated at $252 Million in 1985–86

The department estimates that hospital contracting will reduce Medi-Cal expenditures for inpatient services by $177 million in 1984–85 and by $252 million in 1985–86, relative to what these expenditures would have been without contracting. In 1985–86, this represents a 14 percent savings. These estimates of savings from contracting are calculated by taking the difference between what the department expects to be spent on hospital services under contracting and what it estimates would have been spent had hospitals been reimbursed under previous cost-based reimbursement methods.

The department's estimate of costs for hospital care without contracting assumes cost increases of 10 percent in 1984–85 and 11 percent in 1985–86. Consequently, the department's estimate of savings from contracting will prove to be too high if hospital costs fail to grow at the estimated rates. Recent data from the California Health Facilities Commission show that recent rates of increase in costs have been well below the 10 percent level. Between the first quarters of calendar year 1983 and 1984, hospital costs per patient-day increased by 6.5 percent. Costs per day in the second and third quarters of 1984 showed increases of 7.5 and 8.1 percent, respectively, over the same quarters in 1983.

If the inflation rate for hospital costs remains below 10 percent, the savings attributable to hospital contracting would be less than the amounts identified by the department.

The Effects of Contracting. Several groups are in the process of evaluating the effects of hospital contracting in California. The first comprehensive review of contracting was published by the DHS in its Program Evaluation Team (PET) report. Reviewers visited 28 hospitals in four cities, both before and after the implementation of contracts. The evaluation states that:

- ***Beneficiary access was not significantly affected.*** This was primarily because hospitals that received contracts were those that were serving the Medi-Cal populations before contracting. We confirmed this finding by determining that a sample of contract hospitals, on average, received 19 percent of their 1981–82 revenue from Medi-Cal, while the average hospital without a contract received only 7 percent of its 1981–82 revenue from Medi-Cal.
- ***The census of Medi-Cal patients in noncontract hospitals fell dramatically with the advent of contracting,*** while the severity of illness of the

average Medi-Cal patient in noncontract hospitals increased.

- ***Contract hospitals limited the rate of cost increases more than noncontract hospitals.*** Medi-Cal charges grew more slowly than other patient charges, largely because of a decrease in the use of ancillary services by Medi-Cal patients. Our own review showed smaller cost increases in contract hospitals than noncontract hospitals. Contract hospital costs increased at an annual average rate of 8 percent between the first quarter of 1982 and the first quarter of 1984, while costs increased an average of 12 percent in noncontract hospitals.

The department recently issued its second annual report on selective provider contracting. The report includes an analysis of the incidents reported and investigated under the contract monitoring system. The most frequent types of reported incidents, as well as the most frequent violations of the contract terms, concerned emergency room treatment and transfer. The report identifies cases where a patient was treated in an emergency room and transferred to another hospital because (1) the first hospital was "full," (2) no physician would admit the patient, or (3) an unstable patient was moved from a contract hospital.

Other evaluations of hospital contracting are underway, and the results from these evaluations are likely to be available this spring. These evaluations include a study being prepared by the California Health Facilities Commission, a second prepared for the National Governors' Association, and a third prepared for the federal Health Care Financing Administration.

Limitation on Expenditures

We recommend that the Legislature adopt Budget Bill language included in the 1984 Budget Act (1) forbidding expenditures in excess of 3 percent of the amount appropriated in any expenditure category and (2) requiring legislative notification before augmentations are approved for any service category.

The 1985 Budget Bill appropriates funds for all Medi-Cal local assistance categories in a single budget item. As a result, funds can be transferred among the amounts appropriated for (1) health care benefits, (2) county administration, and (3) claims processing, so long as total expenditures do not exceed the total local assistance appropriation. Since 1982 when the local assistance amounts were first combined into one item, the Legislature has added language to each Budget Bill designed to ensure that the Legislature is notified of all augmentations to any of the three local assistance categories and that these augmentations do not exceed 3 percent of the amount appropriated by the Legislature for that category.

Without this limitation, the Legislature would not have accurate information on the costs of particular services, because the department would have the authority to make unlimited shifts of funds between Medi-Cal local assistance program categories. For example, the administration could transfer unlimited amounts from the legislative appropriation for Medi-Cal health care services to support funding increases for county administration or claims processing.

The 1985 Budget Bill does not contain the language added by the Legislature in earlier years. To ensure that unlimited transfers do not occur, we recommend that language be added to the 1985 Budget Bill prohibiting augmentations in excess of 3 percent and requiring that the Legislature be notified of other augmentations. Specifically, we recommend that the Legislature adopt the following language, which is identical to language contained in the 1984 Budget Act.

"The transfer of amounts from one category in this item to another category shall not exceed 3 percent of the amount scheduled for the receiving category. No augmentation of amounts available for expenditure in any category shall be made sooner than 30 days after notification in writing of the necessity therefor to the chairperson 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 or her designee, may in such instance determine."

Legislative Notification of Changes in Rules or Regulations

We recommend the adoption of Budget Bill language requiring the department to notify the Legislature of any rule change expected to cost $1 million or more.

The 1985 Budget Bill does not include language that was placed in the 1984 Budget Act by the Legislature as a means of assuring legislative oversight of proposed expenditure changes. The 1984 Budget Act requires the Department of Finance to notify the Joint Legislative Budget Committee of any change in Medi-Cal rules or regulations that is expected to result in annual General Fund costs or savings of $1,000,000 or more.

It is important that the Legislature receive notification of regulations or rule changes expected to result in significant increases or decreases in Medi-Cal expenditures, in order to (1) assure that legislatively authorized program services are being provided and (2) monitor General Fund costs. Therefore, we recommend that the Legislature adopt the following language:

"When a date for public hearing has been established for a change in any program, rule, or regulation, or the Department of Finance has approved any communication revising any department program, the two fiscal committees and the Joint Legislative Budget Committee shall be notified if the annual General Fund cost of the proposed change is $1 million or more."

Prepaid Health Plans (PHPs)

PHP Costs Exceed Fee-for-Service Costs

Expansion of Medi-Cal enrollment in California's prepaid health plans (PHPs) has been based on the premise that increased PHP enrollment reduces Medi-Cal costs. In past years, PHP rates, in the aggregate, have been less than the equivalent fee-for-service (FFS) costs. The reasons usually given for PHPs' lower costs are that the prepayment of health care costs on a capitated basis reduces any incentives to provide unnecessary services and introduces incentives to prevent illness.

The department's 1984–85 rates, however, show a very different picture. PHP rates approved in 1984–85 are equal to the costs that the department calculates to be the FFS equivalent costs. This is true for each of the four categories for which individual rates are paid: family, aged, blind, and disabled. In fact, PHPs' *costs* for two categories, family and aged, have exceeded the department's estimated FFS costs in each of the last two years. The rates have been established at a level equal to the FFS costs because, by law, rates paid to PHPs must equal their actuarially deter-

DEPARTMENT OF HEALTH SERVICES—Continued

mined costs, not to exceed equivalent FFS costs.

Table 27 illustrates the increases in PHP rates as a percent of FFS equivalent costs, as identified by the department, between 1979 and 1985. These equivalent costs include the cost of health care services provided to FFS eligibles plus a portion of state administrative costs. The table shows that during the last three years, estimated PHP program savings have decreased from $14 million to zero.

Table 27
Medi-Cal Program
Average Prepaid Health Plan (PHP) Rates As A Percent of Fee-For-Service (FFS) Costs and Total PHP Program Savings for 1978–79 through 1984–85
(dollars in millions)

	1978–79	*1979–80*	*1980–81*	*1981–82*	*1982–83*	*1983–84*	*1984–85*
PHP rates as a percentage of department-identified FFS equivalent costs	80.0%	86.0%	86.5%	85.6%	92.6%	97.8%	100.0% [a]
Savings due to PHP enrollment	$10.1	$9.0	$10.8	$14.0	$9.9	$3.8	—

[a] FFS equivalent costs in 1984–85 are calculated in a different way than they were in past years, as discussed elsewhere in this analysis. If the same method had been used in 1984–85 as in past years, the result would have been 102.6 percent of 1984–85 FFS costs.

The increase in PHP rates as a percentage of FFS equivalent costs has resulted primarily from reductions in FFS costs beginning in 1982–83, following the enactment of Medi-Cal reform legislation. The primary reasons that PHPs have enjoyed a cost advantage over FFS in the past have been (1) the lower use of hospital services by PHP clients and (2) lower costs per hospital day. The Medi-Cal reforms enacted by the Legislature, however, have significantly reduced the PHP system's cost advantage. Hospital contracting accounts for the largest reduction in FFS costs and thus is most responsible for the resulting convergence of PHP and FFS costs. Hospital contracting is expected to save the Medi-Cal program $177 million in 1984–85 and $252 million in 1985–86. In addition, the stricter standards for medical necessity have contributed to the decline in Medi-Cal inpatient hospital days, a major health care cost component. As long as these key elements of the Medi-Cal reforms remain in place, PHPs are not likely to regain their traditional cost advantage.

It should also be noted that the comparison of PHP rates with FFS costs reflected in Table 27 are somewhat biased in favor of the PHP system. The table, which is based on data provided by the department, does not reflect those costs which the state incurs solely on account of the PHP program (or which are not incurred to the same extent in the FFS system). For example, the state spends an estimated $1.7 million on contract and rate development, eligibility, contract operations, and audit functions associated with the PHP program. Most, if not all, of these costs would not exist without the PHP program.

1985–86 Proposed PHP Expenditures

The budget contains several proposals relating to the PHP program and capitation in general.

1. ***The 1984–85 PHP rates on which the 1985–86 budget is based reflect a major change in the way that the equivalent FFS costs are calculated.*** By law, PHP rates can be no higher than equivalent costs, including the costs of administration, in the FFS system. In the past, the department has included in equivalent FFS costs an amount to reflect the administrative costs that the state would save for each Medi-Cal eligible that enrolled in a PHP. These savings result from fewer FFS claims processed, less utilization review activities, and reduced checkwriting and postage costs.

The department's 1984–85 calculation, however, attributes to the FFS system *additional* state administrative costs that could not be saved merely by converting a few thousand participants to the system. These administrative costs could be saved only if the entire FFS Medi-Cal population enrolled in capitated programs. They include the total costs associated with the Fiscal Intermediary Management Division (FIMD), the total cost of the CSC contract, and 50 percent each of the Field Services Branch, Audit and Investigations Division, and the Health Insurance Section of the Recovery Branch. Adding these administrative costs to FFS equivalent costs increases the FFS costs limit by $1.68 per person per month, thereby allowing a similar increase in PHP rates. This increase in rates resulted in a $5 million increase in total PHP costs for 1984–85 and 1985–86.

2. ***The 1984–85 PHP rates for blind and disabled enrollees have been set at a level that is above what the department estimates will be the PHPs' cost of serving these categories of enrollees.*** In the past, the department has set PHP rates at a level equal to estimated PHP costs, a level substantially below the FFS equivalent costs in these two categories. For 1984–85, however, the department set PHP rates equal to the FFS equivalent costs as calculated by the department's new methodology.

3. ***The department proposes the addition of two positions in 1985–86 to expand the PHP program and other capitated health systems.*** The department justifies the added positions on the basis of savings that will result from increased PHP enrollment.

Revisions Needed in PHP Program

We recommend that the Legislature adopt Budget Bill language directing the department to:

1. ***Revise its methodology for determining FFS equivalent costs so as to include only FFS costs that are likely to be avoided if additional Medi-Cal beneficiaries enroll in PHPs, for a savings of $5,250,000 ($2,625,000 General Fund).***

2. ***Set rates for each eligibility category no higher than estimated PHP costs for each category, for a savings of $2,800,000 ($1,400,000 General Fund).***

We also recommend disapproval of $94,000 ($47,000 General Fund) requested for two positions proposed for development of capitated health systems.

Our analysis finds that the change in the method used by the department to calculate equivalent FFS costs is inappropriate. The new methodology reflects FFS costs that would be avoided only if the entire state's Medi-Cal population received services under capitated contracts and no FFS payment need be made. There is nothing in current law to suggest

DEPARTMENT OF HEALTH SERVICES—Continued

that this is the Legislature's objective.

As a result of this change in methodology, the state will be paying more for Medi-Cal beneficiaries enrolled in PHPs than it would if these beneficiaries obtained their health services in the FFS system. *Every additional person who switches from FFS to the PHP system increases state costs by $1.68 per month.*

Paying such a premium to PHPs might be appropriate if it could be shown that California's PHPs offer higher quality or more accessible health services or that enrollees are healthier as a result of PHP care than comparable FFS users. We are not aware of any evidence, however, that California's PHPs offer such advantages over the Medi-Cal FFS system.

A premium might also be justified if it were reasonable to expect *all* FFS eligibles to enroll in PHPs or other capitated systems within a reasonable period of time. Our analysis indicates, however, that statewide enrollment in capitated health systems is unlikely to occur within the next 5 or 10 years, if ever.

For the reasons given above, we recommend that the Legislature adopt Budget Bill language directing the department to revise the rate methodology it uses to determine FFS equivalent costs so that it recognizes only FFS costs that are likely to be avoided if additional Medi-Cal beneficiaries enroll in PHPs. We also recommend a reduction of $5,250,000 ($2,625,000 General Fund) to reflect the savings that would result from use of the revised rate methodology.

Our analysis of the 1984–85 PHP rate package also indicates that the department has increased the PHP rates for blind and disabled beneficiaries, so that the rates exceed the actual costs of serving these groups. We see no reason to change the department's past policy of setting rates for these categories at a level equal to PHP cost experience. In fact, we believe that the change does not conform to the statutory requirement that rates be based on "the expected costs and expected frequency of utilization (by aid category, age, and sex)." We therefore recommend that the Legislature adopt Budget Bill language directing the department to set PHP rates for each eligibility category no higher than the actuarially determined costs for persons in that category. To reflect the reduced cost of providing services to the blind and disabled, we recommend a reduction of $2.8 million ($1.4 million General Fund).

Finally, we see no justification for spending additional funds to expand PHPs at this time. From our analysis, it should be clear that the savings which the department claims will result from increased PHP enrollment are unlikely to occur, given current PHP rates. We therefore recommend the reduction of $94,000 ($47,000 General Fund) and two positions proposed for expansion of PHPs and other capitated health programs.

Our recommended Budget Bill language is as follows:

"It is the intent of the Legislature that the rate methodology used to determine fee-for-service equivalent costs for the Medi-Cal PHP program shall include only those administrative costs likely to be avoided if additional Medi-Cal beneficiaries enroll in PHPs. In addition, PHP rates for any one aid category shall be set no higher than estimated costs for that category."

Technical Recommendations

We recommend a reduction of $3,698,000 ($1,015,000 General Fund) to eliminate overbudgeting.

We recommend the following reductions:

- A reduction of $1,799,000 ($900,000 General Fund) to reflect a delay in the implementation of primary care case management contracts.
- A reduction of $157,000 ($79,000 General Fund) to reflect additional recoveries from various data enhancement projects.
- A federal fund reduction of $1,669,000 to reflect a decrease in Multipurpose Senior Services program (MSSP) costs.
- A reduction of $73,000 ($37,000 General Fund) to reflect various prepaid health plan program changes.

B. MEDI-CAL COUNTY ADMINISTRATION

The budget proposes $124,022,000 ($54,606,000 General Fund) in local assistance to county welfare departments to support Medi-Cal eligibility determinations in 1985–86. Funds proposed in this item support eligibility determination and quality control costs related to medically needy Medi-Cal beneficiaries. The costs of eligibility determinations for categorically eligible Medi-Cal beneficiaries are supported through Item 5180 in the Department of Social Services.

Although the *total* cost of these determinations is expected to *decrease* by $10.7 million, or 7.9 percent, in 1985–86, proposed General Fund expenditures for these activities are expected to *increase* by $5.1 million, or 10 percent, above current-year expenditures. The major factor responsible for the increase in General Fund expenditures projected for the budget year is that General Fund costs in 1984–85 were atypically low, due to the receipt of $3.5 million in federal funds and reimbursements for prior-year expenditures. An additional $2.6 million is requested to cover past-year county employee salary and benefit increases.

The reduction in 1985–86 expenditures from all funds reflects (1) the elimination of one-time 1984–85 costs for court cases and changes in the eligibility determination process and (2) the deletion of one-time federal fund expenditures for county COLAs granted in previous years.

Current estimates of 1984–85 expenditures indicate that General Fund costs for county eligibility determinations will be $662,000, or 1.3 percent, higher than the amount appropriated for these costs in the 1984 Budget Act. The deficit is due primarily to a partial return of money assessed against Los Angeles County for violating reporting requirements.

Table 28 displays estimated and proposed expenditures for county administration in 1984–85 and 1985–86.

Quality Control

We recommend approval of the proposed Budget Bill language related to error rate penalty assessments. We further recommend that the Legislature enact legislation to make permanent this mechanism for assessing Medi-Cal error rate penalties.

Assembly Bill 799 (Ch 328/82) required the department to:

- Establish a quality control program to collect and review quality control information from all counties.
- Pass on to individual counties their shares of any sanctions imposed on California by the federal Department of Health and Human Services due to error rates exceeding the federal standard.
- Hold the counties financially liable for payments made due to errors in Medi-Cal eligibility determinations or share-of-cost calculations that are in excess of a specified error rate standard.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 28
Medi-Cal County Administration
Proposed Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
A. Funds available, 1984–85		
1. 1984 Budget Act	$45,090	$107,282
2. Ch 1447/84	1,498	2,996
3. Ch 1608/84	2,635	2,635
4. Refugee reimbursements	—	402
5. Federal funds and reimbursements received for prior-year expenditures	—	7,456
Subtotals	$49,223	$120,771
B. Unanticipated current-year expenditure changes		
1. Los Angeles County status reporting sanction	$1,177	$2,532
2. Social security account number project	−307	−615
3. Federal fund reduction elimination	−933	—
4. Staff development funding adjustment	335	—
5. Title II disregard	119	238
6. Other real property	−412	−824
7. Federal funds pass-on for 1983–84	—	10,818
8. *Gibbins v. Rank*	243	485
9. Federal and state audits	−389	−567
10. Los Angeles County hospital intakes	141	281
11. Early, Periodic Screening Diagnosis and Treatment program case management	84	352
12. All other changes	604	1,215
C. 1984–85 expenditures (revised)	$49,885	$134,686
D. Projected current-year deficiency	(662)	(13,915)
E. Proposed funding for deficiency		
1. Unbudgeted federal funds	410	—
2. Deficiency bill	(252)	(13,915)
F. Adjusted 1984–85 expenditures	$49,475	$134,686
G. Budget-year changes		
1. Full-year impact of providing full funding for county salary and benefit increases	$2,635	$2,635
2. 2.4 percent cost-of-living adjustment	871	1,870
3. Reduction in federal funds and reimbursements for prior-year expenditures	3,481	—
4. Social Security Administration identification of third-party liability information	286	286
5. Status reporting pilot project	110	220
6. Increased personal needs allowance	73	147
7. Elimination of one-time 1984–85 costs	−2,825	−16,644
8. All other changes	500	822
H. 1985–86 expenditures (proposed)	$54,606	$124,022
I. Change from 1984–85 (revised)		
Amount	$5,131	−$10,664
Percent	10.4%	−7.9%

Federal Sanctions. Twice each year, the federal government establishes the dollar error rate for California, based on a sample of Medi-Cal cases. Federal law defines the dollar error rate as the amount of payments made on behalf of an ineligible person or in excess of amounts to which eligible persons are entitled, as a percentage of all medical assistance payments. The federal funds forwarded to the state each quarter are reduced by the percentage by which the state's measured error rate exceeds the federal standard (currently 3 percent). Between April and September 1985, federal payments to California may be reduced by $4 million to reflect the cost of these sanctions.

Assembly Bill 799 required that the counties share in the costs resulting from these sanctions, but it did not specify how the counties' share was to be determined. The 1984 Budget Act included language establishing a formula for sharing the costs resulting from these sanctions with those counties having the highest *case* error rates (that is, the number of cases in error as a percentage of total cases).

General Fund Cost of Errors. Assembly Bill 799 requires the department to pass on to counties the costs of medical assistance payments made as a result of federally identified payment errors. It also requires that state-imposed sanctions be based on the amount by which individual county dollar error rates exceed a state-established error rate standard.

The staffing level required to determine dollar error rates for *individual counties* is significantly greater than the level available to the department for this purpose. Consequently, the department was not able to implement the provisions of AB 799. As an alternative to the requirement contained in AB 799, the Department of Health Services proposed in 1984 that a new penalty assessment method be adopted. Under this method, which is embodied in the 1984 Budget Act, the costs of medical assistance payments made in error are assessed to counties based on case error rates rather than dollar rates. This method provides the means to apply state sanctions on a simpler, more dependable basis than the dollar error rate required by AB 799, and can be implemented without large numbers of staff. Using dollar error rates rather than case error rates increases staff requirements because of the large variation in dollar payments made for individual Medi-Cal cases. This large variation requires a substantial sample of cases to be reviewed in order to obtain reliable error rate estimates. Case error rates can be reliably estimated with smaller samples.

Analyst's Comments. We believe that the penalty assessment concepts embodied in the 1984 Budget Act and proposed in the 1985 Budget Bill have merit. Consequently, we recommend approval of the proposed Budget Bill language. We further recommend that this language be incorporated in statute as the permanent basis for assessing penalties on counties with excessive error rates.

Excess Denial Rates

Chapter 1594, Statutes of 1982 (SB 2012), established a limit on what the state will pay counties for costs of processing denied Medi-Cal applications. This limit is intended to insure that the Medi-Cal program does not bear an unreasonably large share of eligibility determination costs associated with county medically indigent services programs. Senate Bill 2012 allows the department to adjust a county's denial rate only upon a finding of "special circumstance."

The Legislature added to the 1984 Budget Bill (1) language that directed the department, in consultation with representatives of the counties, to develop guidelines under which a county could appeal the withholding

DEPARTMENT OF HEALTH SERVICES—Continued

of funds due to an excess denial rate and (2) $5.6 million, the amount the department expected to withhold from counties in 1984–85, for use in paying counties that won their appeals. The Governor vetoed the language and the funds.

The department now estimates that approximately $5.8 million in General Fund administrative costs will be recouped from counties in 1984–85 due to excess denial rates that occurred in 1982–83 and 1983–84. In the absence of any special appeals process, the budget estimates that $4 million will be withheld in 1985–86, due to 1984–85 excess denial rates.

Proposed Cost-of-Living Adjustment for County Administration

We recommend that the Legislature correct errors in proposed Budget Bill language to specify that the General Fund share of 1985–86 county administrative costs shall be based on average salaries paid in 1984–85.

The budget contains $1,870,000 ($871,000 General Fund) for a 2.4 percent increase in payments to counties for Medi-Cal eligibility determinations. This is the amount that the department estimates is needed to fully fund *in 1985–86* the state's share of salary and benefit levels approved by the counties for 1984–85. The budget does not contain any funds to cover the increased costs of county salary and benefit increases that may be granted by counties during 1985–86.

This proposal and our recommendation is discussed in connection with the analysis of the cost-of-living adjustments proposed in the Department of Social Services budget for county administration (Item 5180-141-001).

County Administrative Cost Control

We recommend that the Legislature adopt Budget Bill language directing the department to use 1980–81 as the base year for the county administrative cost control plan, for a $2.5 million General Fund savings in state subventions for county administration. We further recommend that the Legislature adopt Budget Bill language requiring the Department of Health Services to use 1984–85 as the base year for the administrative cost control plan to be included in the 1986–87 budget.

The Departments of Health Services and Social Services jointly administer the county administration cost control plan. This plan specifies the amount of General Fund support that each county will receive to administer various eligibility programs. The departments are required to administer the plans in a uniform and consistent manner.

The cost control plan specifies productivity standards, by county, for the number of applications to be processed (intake cases) and the number of approved cases to be maintained (continuing cases), per eligibility worker. The standards for a given county are the higher of the county's actual performance or the average performance of counties with similar size, measured in a specified base year.

In the current year, the Department of Health Services used 1978–79 as the base year in determining eligibility worker productivity standards. The Department of Social Services uses 1977–78 as the base year for the Aid to Families with Dependent Children (AFDC) program and 1979–80 in the Food Stamps (FS) program. For 1985–86, the Department of Social Services proposes to use 1980–81 as the base year for AFDC. Unlike the Department of Social Services, the Department of Health Services proposes to continue using 1978–79 as the base year.

We estimate that the department's failure to update the base year will result in added costs to the General Fund of at least $2.5 million in 1985–86.

We can find no justification for maintaining a base year that unnecessarily increases state costs, and accordingly we recommend that the Legislature adopt Budget Bill language requiring the department to use 1980–81 as the base year for Medi-Cal county administration. This would be consistent with what the Department of Social Services proposes for the budget year.

We recognize that it would be technically possible to use 1981–82, 1982–83, or 1983–84 as the base year for the cost control plan. We do not believe it would be appropriate to do so, however, because county costs in those years may be distorted by the time required to implement the 1982 Medi-Cal reforms.

It is important to periodically update the base year used in the cost control plan to reflect the impact that policy changes have on the time it takes to process welfare cases. We believe that a further update of the base year should occur in 1986–87 for two reasons. First, there have been major changes in the Medi-Cal program. The 1982 Medi-Cal reforms resulted in substantial change in eligibility workers' caseloads and procedures. The counties' experience during 1984–85 could serve as a reliable base year for determining costs under the revised system. Second, during the years 1981–82 to 1983–84, many counties realized productivity increases in response to limits on state funding of salary increases. The data from 1984–85 would reflect both these factors—program changes and the productivity improvements that have occurred in recent years.

To assure that the cost control plan accurately reflects county costs and productivity, we recommend that the Legislature adopt Budget Bill language to require that the department use 1984–85 as the base year for determining eligibility targets in future cost control plans.

Our recommended language is as follows:

"It is the intent of the Legislature that the department shall use 1980–81 as the base year for determining eligibility worker productivity targets included in the Medi-Cal county administration cost control plan for 1985–86 and to use 1984–85 as the base year for the cost control plan in preparing the 1986–87 budget."

C. MEDI-CAL CLAIMS PROCESSING

The Department of Health Services does not directly pay doctors, pharmacists, hospitals, nursing homes, or other providers for the services they render. Instead, the department contracts with fiscal intermediaries for Medi-Cal fee-for-service claims processing. Currently, the department has contracts with the Computer Sciences Corporation (CSC) and two other vendors. In addition, the department reimburses (1) the State Controller's office for printing and mailing checks to Medi-Cal fee-for-service providers and (2) the State Treasurer's office for redeeming Medi-Cal warrants. Payments to organized health systems and to providers of mental health services under the Short-Doyle Act are processed directly by the department or, in the case of the Redwood Health Foundation and California Dental Service, by the health system itself.

Current-Year Costs Will Exceed Amount Appropriated

The budget anticipates that General Fund expenditures for claims processing in the current year will be $1,062,000, or 16 percent, higher than the amount included for this purpose in the Budget Act. The budget requests a deficiency appropriation to fund the claims processing deficit. Table 29 summarizes estimated and proposed expenditures for Medi-Cal claims processing in 1984–85 and 1985–86.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 29
Medi-Cal Claims Processing
Proposed Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
A. Funds available, 1984–85		
1. 1984 Budget Act	$6,725	$26,644
2. Refugee reimbursements	—	127
3. County Medical Services program (CMSP) reimbursements	—	257
4. Provision 1, 1984 Budget Act, funds	—	615
Subtotals	$6,725	$27,643
B. Unanticipated current-year expenditure changes		
1. Computer Sciences Corporation contract	$445	$1,314
a. Workload, sales tax, and operating costs	(316)	(826)
b. Change orders	(104)	(400)
c. Enhancements	(25)	(88)
2. Federal audits and deferrals	758	758
3. Revised federal sharing ratio due to MIAs	42	—
4. Expiration of reduced federal matching	−303	—
5. Reduced reimbursements	120	120
C. 1984–85 expenditures (revised)	$7,787	$29,835
D. Projected current-year deficiency	($1,062)	($2,192)
E. Budget-year changes		
1. Computer Sciences Corporation contract		
a. Change in new contract adjudication costs	$235	$1,135
b. Deletion of contract extension costs	−901	−3,499
c. Deletion of one-time contract turnover cost	−95	−369
d. Deletion of enhancement costs	−137	−531
e. Reduction in hourly cost reimbursement items and sales tax	−228	−657
f. Increase in systems development group costs	63	272
g. Deletion of 1984–85 change orders	−162	−650
h. Addition of proposed change orders	387	1,549
(1) Maintenance of Medi-Cal record center	(50)	(200)
(2) Automation of treatment authorization requests	(78)	(311)
(3) Child health and disability prevention claims processing	(259)	(1,038)
2. Deletion of federal audits and deferrals	−758	−758
3. Changes in CMSP reimbursements	259	—
4. State Controller funding	−9	—
5. Decreased federal receipts	615	—
F. 1985–86 expenditures (proposed)	$7,056	$26,327
G. Change from 1984–85 (revised)		
Amount	−$731	−$3,508
Percent	−9.4%	−11.8%

The $1,062,000 increase in claims processing expenditures from the General Fund during the current year reflects the following costs and savings:

- Payment of $758,000 to the federal government for funds inappropriately claimed in past years.
- Increased costs of $445,000 associated with the new CSC claims processing contract.
- Net reductions of $141,000 due to changes in federal funding and reimbursements.

Budget Reduction Due to New Contract

The budget proposes $26.3 million ($7.1 million General Fund) for Medi-Cal claims processing activities in 1985–86. The General Fund portion of the request is $731,000, or 9.4 percent, less than estimated 1984–85 expenditures. The proposed decrease in claims processing expenditures from the General Fund reflects the following costs and savings:

- A net reduction in costs of $1,063,000 due to full-year operation of the new claims processing contract. This is the net effect of deleting $1,133,000 in one-time start-up costs and adding $70,000 for ongoing operating costs.
- Additional costs of $225,000 for change orders under the new contract.
- A net increase of $107,000 due to federal audits and funding changes and County Medical Services program (CMSP) reimbursements.

Legislative Notification of Fiscal Intermediary Change Orders

We recommend that 1984 Budget Act language requiring legislative notification of fiscal intermediary change orders be added to the Budget Bill. We further recommend that the Budget Bill be amended to require legislative notification of changes affecting the dental fiscal intermediary contract.

The Budget Bill does not include language that was added by the Legislature to the 1982, 1983, and 1984 Budget Acts. The 1984 Budget Act language required that:

- At least 30 days' prior notice be given to the Legislature before CSC change orders costing $250,000 or more are implemented.
- The Legislature be notified if there are actual or potential changes in the availability of federal funding for CSC operations.

We recommend that the Legislature add similar language to the 1985 Budget Bill because (1) the Legislature should have an opportunity to review major changes to the fiscal intermediaries' systems before they are made and (2) the Legislature must be alerted to changes in available federal funding if it is to control the level of expenditures made from the General Fund. The latter consideration is especially important since the state could become eligible for enhanced federal funding as the California Dental Service (CDS) proceeds with plans to automate its claims processing.

We also recommend that the control language specifically include change orders for both fiscal intermediaries—CSC and CDS. The specific 1985 Budget Bill language we recommend reads as follows:

> "Change orders to the medical or the dental fiscal intermediary contract for amounts exceeding a total cost of $250,000 shall be approved by the Department of Finance not sooner than 30 days after written notification of the change order is provided to the chairpersons of the fiscal and policy committees in each house, and the Joint Legislative Budget Committee, or not sooner than such lesser time as the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may designate.
>
> "If there are changes or potential changes in federal funding, the Department of Finance shall provide timely written notification of the changes to the chairpersons of the fiscal committees in each house and the Joint Legislative Budget Committee."

DEPARTMENT OF HEALTH SERVICES—Continued

CDS Budget Estimates

We recommend that the Department of Finance include in its May and December estimates of Medi-Cal expenditures detailed estimates of the cost for fiscal intermediary services provided by California Dental Service.

The budget proposes $85,507,000 for dental services provided under the Medi-Cal program. This amount consists of $74,614,000 for dental care and $10,893,000 for fiscal intermediary services.

The methodology employed to develop the cost estimate for fiscal intermediary services is not clearly explained in the budget materials submitted by the Department of Finance. Specifically, the budget materials do not reflect the dental fiscal intermediary's (1) base estimate, (2) estimate of the fiscal effect result from policy changes, or (3) estimate of expected changes in workload. Nor do the materials include an explanation of what assumptions were used in calculating the effects of policy changes.

The new contract provides for reimbursement methods and reporting that will allow the department to display dental fiscal and intermediary expenditures in a format parallel to that provided for CSC. Without such information, the Legislature is unable to assess (1) the degree to which the fiscal effects of some policy changes have been reflected in base costs, (2) the validity of the data on which the estimates are based, and (3) the reasonableness of the estimate in general.

To assure that the Legislature receives this information, we recommend that the Department of Finance include in the May and December estimates of Medi-Cal expenditures *detailed* estimates of the costs for dental fiscal intermediary services.

D. MEDI-CAL STATE ADMINISTRATION

The budget proposes $120.2 million ($39.9 million General Fund) for state administration of the Medi-Cal program in 1985–86. This is a reduction of $700,000, or 0.6 percent, in total funds and a reduction of $44,000, or 0.1 percent, in General Fund support. Table 30 displays Medi-Cal state administration expenditures in 1984–85 and 1985–86.

Table 30
Medi-Cal Program
State Administration Expenditures
1984–85 and 1985–86
(dollars in thousands)

	Estimated 1984–85		*Proposed 1985–86*		*Percent Change in*
	General Fund	*All Funds*	*General Fund*	*All Funds*	*General Fund*
Department of Health Services	$35,543	$109,102	$35,352	$108,507	−0.5%
Department of Social Services	3,415	10,071	3,550	9,960	4.0
California Medical Assistance Commission	942	1,761	954	1,739	1.3
Totals	$39,900	$120,934	$39,856	$120,206	−0.1%

Note: Table 11 shows where funds are actually proposed to be spent, not where they are appropriated. All federal funds spent by the Department of Social Services and California Medical Assistance Commission are appropriated in the Department of Health Services items.

Medi-Cal Program Positions

The budget proposes support for 1,386.2 positions directly attributable to administration of the Medi-Cal program in the Department of Health Services. This is 82.1 positions, or 5.6 percent, less than the number of authorized positions in 1984–85. The decrease reflects the expiration of 23 limited-term positions and a proposed net decrease of 51.1 permanent positions.

Table 31 shows the changes in Medi-Cal-related positions proposed for the budget year. It does not reflect positions in the department's administrative units that are distributed for funding purposes to the Medi-Cal program. These amount to an additional 288.3 positions.

Table 31
Medi-Cal Program
Proposed Positions in the
Department of Health Services
1985–86

Program	*Existing Positions*	*Limited-Term Positions*	*Proposed Changes*	*Total Proposed Positions*	*Percent Change*
Eligibility	63.5	—	1.0	64.5	1.6%
Benefits	40.0	—	−0.5	39.5	−1.3
Rate Development	37.1	—	−0.4	36.7	−1.1
Contract Operations	48.2	—	+6.0	54.2	12.4
Utilization Control	425.7	—	−28.9	396.8	−6.8
Health Recovery	238.8	−2.0	−29.5	207.3	−13.2
Fiscal Intermediary Management	117.6	−21.0	+24.8	121.4	3.2
Program Development	29.1	—	+2.0	31.1	6.9
Information	10.0	—	−4.0	6.0	−40.0
Audits and Investigations [a]	458.3	—	−29.6	428.7	−6.5
Totals	1,468.3	−23.0	−59.1 [b]	1,386.2	−5.6%

[a] Includes the 97 percent of Audits and Investigation positions attributable to Medi-Cal program activities.
[b] Total includes a net reduction of 44 permanent positions, 7.1 temporary help positions, and transfer of 8 positions.

Recommended Approval of Proposed Changes

We recommend approval of the following program changes that are not discussed elsewhere:

- The transfer of seven positions from the Audits and Investigations Division to the Contracts Operations Branch, in order to implement a newly designed program to review the quality of care provided by contract hospitals.
- A reduction of 6.5 positions due to closure of three Recovery Branch field offices and consolidation of remaining staff, for a savings of $265,000 ($132,000 General Fund).
- A reduction of four positions in the Medi-Cal Program Evaluation Unit, for a savings of $168,000 ($84,000 General Fund).
- A reduction of 14 positions in the Audits and Investigations Division resulting from efficiencies gained from reorganization, for a savings of $544,000 ($261,000 General Fund).
- The transfer of 8 positions in the Audits and Investigations Division from Medi-Cal beneficiary fraud investigations to toxic investigations.

DEPARTMENT OF HEALTH SERVICES—Continued

Statewide Automated Welfare System

We withhold recommendation on two positions and $86,000 ($43,000 General Fund) budgeted for the Statewide Automated Welfare System (SAWS), pending review of the annual progress report.

The budget requests $86,000 to fund two limited-term positions to continue development of statewide standards for data systems supporting the Medi-Cal eligibility determination process in counties. The budget also requests additional staff for SAWS in the Department of Social Services.

Chapter 268, Statutes of 1984, requires the Department of Social Services to report to the Legislature on each year's progress in achieving the goals established in the SAWS project.

We withhold recommendation on the proposal for additional positions, pending review of the annual progress report on the SAWS project. Any decision concerning continued funding for this project must be made in light of its progress in meeting its stated objectives.

Prepaid Health Plan Rates

We recommend that during budget hearings, the department present to the Legislature a description of the steps it is taking to ensure timely establishment of prepaid health plan (PHP) rates in future years.

In the *Supplemental Report to the 1984 Budget Act,* the Legislature directed the Department of Health Services to submit to the Legislature by October 15, 1984, its 1984–85 prepaid health plan (PHP) rates. The department, however, did not establish the rates until January 1985. The department advises that the delay was caused primarily by prolonged discussions with the affected plans regarding the proposed rates.

The delay in establishing PHP rates warrants concern because it can result in increased costs to the state. In 1983–84 the rates were not established until March 1984, nine months after the statutory deadline of July 1. In certain cases the rates were lower than they had been in the prior year. The lower rates, however, could not be implemented retroactively, although the rate increases were implemented retroactively. Establishment of the rates on a more timely basis would have resulted in savings to the PHP program.

Given the department's failure to comply with legislative intent in 1984–85 and the importance of adopting these rates on a timely basis, we recommend that during budget hearings, the department present to the Legislature a description of the steps it is taking to ensure the timely submission of PHP rate documentation in the future.

Rate Development Contracts

We recommend a reduction of $53,000 ($26,000 General Fund) requested for contractual services in connection with rate development because this function is already being performed by department personnel.

The budget requests $53,000 ($26,000 General Fund) for contractual services that are intended to develop PHP, county-organized health system, and fiscal intermediary at-risk rates for 1985–86.

Our analysis confirms that the department already has the technical staff needed to prepare rates for these provider categories. In fact, the Legislature approved an additional actuary position in 1983–84 to handle increased rate development workload. Moreover, the department's failure to meet legislative deadlines for completion of rates has not been due to lack of technical staff needed to calculate the rates.

Because the department already has rate development personnel performing this function, we recommend deletion of the amount proposed for a contract, so as to eliminate the double-budgeted funds.

Field Office Staffing Based on Old Workload Standards

We recommend that the Department of Finance report at budget hearings if it intends to propose staffing adjustments in 1985–86 to reflect the results of the Medi-Cal field office workload study.

The 1984 Budget Act directs the department to conduct a workload study of the treatment authorization request processing function in Medi-Cal field offices. The study was intended to provide a basis for staffing standards to be used in the 1985–86 budget. However, because the department has not yet completed the required study, the budget estimates are based on historical workload standards. We recommend that the Department of Finance report during budget hearings whether it intends to adjust 1985–86 staffing to reflect the study's results.

Field Office 24-Hour Toll-Free Telephone Lines

We recommend a reduction of $24,000 ($12,000 General Fund) in the amount requested to purchase a 24-hour telephone access lines for Medi-Cal field offices to reflect more recent cost estimates.

The budget proposes $134,000 ($67,000 General Fund) for the cost of 24-hour toll-free telephone lines that medical providers may use to contact field office personnel concerning treatment authorizations. New estimates from the department indicate that there will be costs of only $110,000 ($55,000 General Fund) in 1985–86, $24,000 ($12,000 General Fund) less than the budgeted amount. We recommend that the excess be deleted.

Treatment Authorization Requests: Raising Dollar Limits

We recommend that the Legislature restore the 12.5 personnel-years proposed for deletion in the budget because the proposed increase in the minimum dollar limit for treatment authorization requests would increase state costs by more than the savings in personnel costs. (Net effect of this recommendation: savings of $839,000 ($545,00 General Fund).)

The DHS proposes to increase the dollar limit above which a treatment authorization request is required before treatment can be given. Table 32 shows the categories of services proposed for increase, the current limits, and the proposed limits.

Table 32

Current and Proposed Minimum Dollar Limits for Treatment Authorization Requests

Type of Service	*Current Minimum*	*Proposed Minimum*
Hearing aid services	$10	$25
Prosthetics and orthotics	25	50
Durable medical equipment	25	50

The department reports that the increased limits will reduce workload

DEPARTMENT OF HEALTH SERVICES—Continued

in the field offices that process TARs for these services. It proposes a 12.5 position reduction (11.5 personnel-years) to reflect the reduced workload, for a savings of $521,000 ($135,000 General Fund).

According to the department, the increased limits will result in approval of TARs that currently are disallowed or modified, thereby increasing Medi-Cal program costs. Based on a 1981 study of TAR processing, the proposed change in TAR limits will result in increased Medi-Cal costs of at least $1,360,000 ($680,000 General Fund) in 1985–86. Therefore, the net costs of the budget proposal would be $839,000 ($545,000 General Fund) annually. These costs could be even higher if the current limits are deterring providers from submitting claims for unnecessary services or equipment.

The local assistance budget for medical benefits has not been increased to reflect the added costs anticipated as a result of the change in TAR limits.

We recommend that the Legislature reject this proposal. Based on the data provided by the department, the change in TAR limits would increase *state* costs by $5.04 for every dollar in state personnel costs saved. Overall, costs would increase at a rate of $2.61 for every dollar saved.

Automation of Treatment Authorization Request Files

We withhold recommendation on the proposal to contract with Computer Sciences Corporation (CSC) for automation of Medi-Cal field offices, pending receipt of more specific information on the project's estimated costs.

The department proposes to contract with the Computer Sciences Corporation (CSC), the current Medi-Cal fiscal intermediary, for the purpose of automating the files of treatment authorization requests (TARs). Currently, each Medi-Cal field office maintains a paper file of each beneficiary's TARs. The information in the files often is used in acting on new requests for treatment authorizations.

Instead of issuing a new contract for the project, the department proposes to amend its existing contract with CSC for fiscal intermediary services to include automation of TAR files. The budget includes $311,000 ($78,000 General Fund) for this purpose.

In connection with the automation project, the department also proposes to reduce the personnel currently employed in maintaining the paper files in three field offices during the budget year—two in July 1985 and one in April 1986. Additional personnel reductions are anticipated during 1986–87. The reductions in personnel are expected to result in a savings of $236,000 ($59,000 General Fund) during 1985–86 and $315,000 ($79,000 General Fund) annually thereafter.

Our analysis of the proposal indicates that:

1. ***The cost-effectiveness of the proposal cannot be assessed until more realistic cost estimates are available.*** The department currently is negotiating with CSC to reach agreement on the costs of the contract amendment. The department now estimates that the costs of the TAR automation projects in 1985–86 will be $1 million, but it cannot identify what portion of the total is one-time start-up costs and what portion is ongoing operating costs. Until negotiations with CSC are completed, there is no firm basis on which to compare the development and operating costs of the automated system with the expected savings in operating costs.

2. ***Although the Department of Finance describes this proposed automation as a pilot project, the proposal makes no mention of an evaluation***

or the criteria by which to judge the success or failure of the pilot. In fact, the proposal calls for expansion of the system to a third field office in April 1986 and a reduction in staffing, regardless of the system's success or failure at the first two sites.

3. ***The proposal constitutes the first step in a major data processing effort but will not be subject to the review process normally required for such projects.*** Because the project can be implemented by a change order to the existing CSC contract without the kind of review normally required, the Legislature will have no assurance that the project represents the best method for automating TAR files.

Lacking estimates of the cost and savings attributable to this project, we withhold recommendation on the proposal. A thorough analysis of the proposal by the Legislature will be possible only after the department has provided the following information: (1) the development costs, (2) operating costs for the budget year and subsequent years, (3) savings due to automation, both during the budget year and in subsequent years, (4) specific plans for an evaluation of the system in its first two sites on which to base the decision to expand to further sites.

Jackson v. Rank: Budget Bill Control Language

We recommend that the Legislature adopt Budget Bill language requiring legislative notification before any funds are spent in connection with workload increases required to comply with court orders in the case of **Jackson v. Rank.**

The Budget Bill does not include language in the 1984 Budget Act that:

- Requires legislative notification 30 days prior to expenditure of funds for workload increases resulting from *Jackson v. Rank.*
- Expresses the Legislature's intent that department staffing levels be increased to meet *permanent* workload increases mandated by the court and that *temporary* increases be met through contractual agreements.

As part of its decision in the *Jackson v. Rank* case, the federal court ordered the department, on a one-year pilot basis, to send recipients notices of all actions taken by the department on treatment authorization requests (TARs), along with information on what a recipient can do to appeal the department's actions. During the pilot period, the department contracted with the Employment Development Department to obtain Work Incentive (WIN) program participants to prepare the notices. At the end of the one-year pilot and evaluation period, the court will decide whether this order should be made permanent.

The Legislature was concerned about the appropriateness of using Work Incentive (WIN) program participants to meet the permanent workload increases that would result from a final court decision. Because of this concern, it added the language to the 1984 Budget Act discussed above. Since the department does not expect the final court order to be issued until January 1986, we recommend that the Legislature include similar language in the 1985 Budget Bill. This language is as follows:

> "The Department of Finance shall report to the Joint Legislative Budget Committee and the fiscal committees, prior to the expenditure of funds pursuant to the final court order in the case of *Jackson v. Rank,* on the appropriate staffing levels necessary to meet mandated workload increases, if any. It is the intent of the Legislature that the department's staffing levels include the staff necessary to meet the permanent workload increases mandated by this court case."

DEPARTMENT OF HEALTH SERVICES—Continued

Recovery Branch Contract Proposal

We recommend that the reduction of 22 positions proposed in the budget on account of the contract for probate and casualty/workers' compensation recovery activities be disapproved because the reduction is premature. We further recommend a reduction of 16.5 positions in the Casualty/Workers' Compensation Section to reflect recovery workload decreases. (The net effect of these recommendations is a net General Fund reduction of $165,000 and a $5,000 increase in federal funds.)

The budget proposes a reduction of (1) 22 positions, beginning in January 1986, and (2) $341,000 ($170,000 General Fund), as part of a pilot project under which the department will contract with private collection agencies to perform workers' compensation and probate recovery functions. This represents a 25 percent reduction in state staff devoted to these recovery functions. The reductions consist of 1.8 positions in the Probate Recovery Section and 20.2 positions in the Casualty/Workers' Compensation Recovery Section.

The department proposes to implement this pilot program during January 1986 in eight counties having 25 percent of the state's Medi-Cal caseload. The contractors would be required to guarantee that they will recover at least the amount that would otherwise have been collected by state personnel performing these functions. The department indicates that legislation is needed to permit contracting for this function.

Our analysis indicates that the proposed January 1, 1986, implementation date is unrealistic. The department's schedule calls for preparation of the request for proposal (RFP) and the passage of enabling legislation by July 1, 1985. The department also indicates that issuing the RFP and evaluating proposals, receiving approval from the Departments of Finance and General Services, and allowing time for the contractor to set up would require a minimum of nine additional months. This places the *earliest* date for full operation at April 1, 1986, three months *after* the effective date of the proposed position reductions.

We believe that even this schedule is not realistic. It is not likely that this program will be underway prior to 1986–87.

In any event, given the amount at stake and the uncertainty regarding implementation, we believe that any position reductions associated with this proposal in 1985–86 would be premature and unwise. Therefore, we recommend that the Legislature reject the proposal to eliminate 22 positions in January 1986.

Our analysis of current department workload data, however, indicates that a reduction in staff *is* warranted, even if the pilot project is delayed. Since 1982–83, there has been a 24 percent decrease in the number of active cases on file in the Casualty/Workers' Compensation Recovery program, one of the units proposed for contracting. The department indicates that much of the decrease in casualty/workers' compensation cases is due to a decrease in the number of Medi-Cal eligibles resulting from the transfer of the Medically Indigent Adult program to the counties in January 1983.

Based on the reductions in caseload, we estimate that the Casualty/Workers' Compensation Section currently is overstaffed by 16.5 positions. We therefore recommend a reduction of 16.5 positions in the Casualty/

Workers' Compensation Section, effective July 1, 1985, to reflect these workload decreases.

The net effect of these recommendations is to reduce budgeted staffing levels by 16.5 positions from July through December 1985 and to increase budgeted staffing levels by 5.5 positions from January through June 1986. This results in a reduction of $165,000 from the General Fund (Item 4260-001-001) and an increase of $5,000 in federal funds (Item 4260-001-890). The increase in federal funds compensates for an error in the proposed federal funding ratio reflected in the budget.

Fiscal Intermediary Management Division Proposed Positions

We recommend that (1) the 26 positions proposed in the Fiscal Intermediary Management Division be approved on a one-year limited-term basis, (2) the Legislature adopt supplemental report language directing the Department of Finance to review the division's overall staffing requirements, and (3) the budget be reduced by $23,000 ($6,000 General Fund) to correct a technical error.

The budget proposes 26 positions and $936,000 ($239,000 General Fund) to continue and enhance a variety of functions within the Fiscal Intermediary Management Division (FIMD). Twenty-one of these positions are limited-term positions that were added by Ch 1129/80 (AB 1414) to aid in managing the Medi-Cal claims processing contract. The remaining five are new clerical positions that the department believes are needed to handle increased division workload.

We recognize that many of the activities conducted by the division are necessary to monitor the performance of Medi-Cal fiscal intermediaries. Nevertheless, the department has been unable to provide workload data needed to justify the proposed level of staffing. Consequently, we recommend that the 26 positions be approved on a one-year limited-term basis, pending completion of a workload analysis that will identify the appropriate staffing levels. We also recommend that the Legislature adopt supplemental report language directing the Department of Finance to prepare such an analysis of the division's staffing needs. The purpose of the review would be to identify the consequence of added or reduced staff for the division. Finally, we recommend a reduction of $23,000 ($6,000 General Fund) to eliminate an increase in the division's consultant services inappropriately included in the department's proposal.

The language we recommend is as follows:

> "The Department of Finance shall prepare a review of the Fiscal Intermediary Management Division's staffing needs by December 1, 1985. The review shall include (1) a compilation of the division's potential activities, (2) ranking of each activity according to its costs relative to its benefits, and (3) a proposed resource allocation according to priority ranking based on staffing at reduced, existing, and increased levels."

Medi-Cal Intermediary Operations File Maintenance and Retrieval

We recommend (1) the deletion of funds requested for a contract with CSC to maintain medical claims records and (2) the addition of five positions to perform this function, because the use of state staff for this purpose is more cost-effective. (Net fiscal effect: savings of $12,000 ($6,000 General Fund).)

The budget requests a $200,000 ($100,000 General Fund) augmentation

DEPARTMENT OF HEALTH SERVICES—Continued

to the fiscal intermediary budget for a contract to operate the Medi-Cal Record Center, which contains Medi-Cal records from the state's previous fiscal intermediary, Medi-Cal Intermediary Operations (MIO). This function currently is performed by eight limited-term positions that expire June 30, 1985.

Our analysis indicates that continuing state operation of the record center would be less costly than the proposed contract. Data from the department indicate that five positions would be necessary in 1985–86 to staff this activity, at a total cost of $188,000 ($94,000 General Fund)—$12,000 less than the amount proposed for the contract.

Because this function can be accomplished at a lower cost by state staff, we recommend that the funds requested for the CSC contract be deleted and that five positions be authorized to perform this task, for a net savings of $12,000 ($6,000 General Fund).

Reversion of Funds

We recommend that $135,000 appropriated in Ch 1572/84 (AB 3889) to secure a toll-free phone number for the use of providers wishing to contact Medi-Cal field offices be reverted to the General Fund.

The department now estimates that it will incur General Fund costs of only $28,000 in 1984–85 to comply with the requirements of AB 3889. Since the bill appropriated $163,000 solely for this purpose, there will be an unexpended balance of $135,000 remaining from this appropriation at year-end. We recommend that this amount be reverted to the General Fund.

Unjustified Contract Funds

We recommend a reduction of $310,000 ($155,000 General Fund) to eliminate funds requested for consultant and professional services that have not been justified.

We recommend reduction of the following amounts requested for contracts:

1. $60,000 in the Audits and Investigations Division for purchasing a cost audit computer system, because the system is scheduled for purchase in the current year.
2. $100,000 in the Audits and Investigations Division for a contract with the Department of Justice to supply certain information on paid claims, because the information will be supplied by CSC under the new fiscal intermediary contract beginning January 1, 1986. The $100,000 reduction leaves $200,000 in the budget to support costs for the first half of the fiscal year.
3. $150,000 in the Medi-Cal Operations Division for Department of Justice legal support, because in the past these expenditures have consistently been that much less than the $551,000 budget for legal support.

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY

Item 4260-301 from the General Fund, Special Account for Capital Outlay — Budget p. HW 86

Requested 1985–86	$492,000
Recommended approval	404,000
Recommended reduction	88,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATION

	Analysis page
1. ***Berkeley—Additional Space and Renovation. Reduce Item 4260-301-036(2) by $40,000.*** Recommend reduction because the department should not proceed with the preparation of an environmental impact report for this project until the Legislature has reviewed the results of the study.	785
2. ***Minor Projects. Reduce Item 4260-301-036(1).*** Recommend deletion of this item because the department should defer work at Fairfield until completion of the study evaluating alternatives for renovating the entire facility.	786
3. Construction Costs. Recommend that the amounts approved for construction under this item be reduced by 3 percent to eliminate overbudgeting of construction costs.	787

ANALYSIS AND RECOMMENDATIONS

The budget proposes $492,000 from the General Fund, Special Account for Capital Outlay, for three major projects and one minor project for the Department of Health Services (DHS).

Autoclave Replacement

We recommend approval of Item 4260-301-036(3) to replace autoclaves.

The budget proposes an appropriation of $334,000 under Item 4260-301-036(3) for the sixth and final phase of a project to replace autoclaves (steam sterilizers). Autoclaves are used to sterilize (1) equipment and reagents which are used in tests to determine the presence of infectious disease, and (2) material used in the testing process prior to disposal of the material.

The DHS proposes to replace three autoclaves under Phase VI. Our analysis indicates that the proposed project is necessary to ensure continued operation of the laboratories, and accordingly we recommend that it be approved.

Laboratory Facilities Studies—Berkeley and Fairfield

We recommend that Item 4260-301-036(2) be reduced by $40,000 in order to delete funds requested for an environmental impact report.

The budget includes $90,000 under Item 4260-301-036(2) to (1) study the feasibility of consolidating the Berkeley Laboratories located at Berkeley Way and Acton Street ($50,000), and (2) prepare an environmental impact report ($40,000) for a major capital outlay project that the study may recommend. In addition, $20,000 is included under Item 4260-301-036(4) to study alternatives for renovating the Fairfield Animal Facility.

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY—Continued

Background. In October 1980, the Department of General Services issued a 10-year facilities plan for the DHS laboratory system. This plan identified laboratory space deficiencies and proposed several alternatives for correcting the existing space problems. The plan recommended consolidating the Berkeley Way and Acton Street facilities by either (1) constructing a new building, or (2) modifying the Berkeley Way laboratory to provide additional space for the Acton Street facility. The plan also recommended renovating the Fairfield Animal Facility (although some consideration was given to consolidating the Fairfield facility with the Berkeley labs).

Current Proposal. The funds in the budget would be used to reevaluate the alternatives proposed in the 1980 facilities plan and to determine the needs for additional space and/or renovation at the Berkeley and Fairfield facilities. This reevaluation is appropriate, given the programmatic and facility changes that have occurred since 1980. For example, the hazardous materials laboratory program has grown substantially since 1980, requiring additional space to accommodate an increase in staff. In addition, the food and drug laboratory (once part of the Berkeley lab complex) has been relocated to Emeryville.

To clarify the scope of this reevaluation, we recommend that the studies consider at least the following factors:

- Programmatic changes which have occurred since 1980.
- The effect of approximately $1.4 million in capital outlay funds which have been appropriated during the last five budget years, for modifications to the Berkeley Way/Acton Street labs and the Fairfield facility. These funds have been used for various projects to correct code deficiencies and to make more effective use of space.
- The effect of the Governor's proposal to consolidate toxics programs into a single department.

EIR Funding is Premature. The funds proposed for the Berkeley laboratory study also include $40,000 for preparation of an environmental impact report (EIR). This request is premature. The Legislature should have an opportunity to review the conclusions and recommendations of the study *before* funds are spent to prepare an EIR. If the Legislature approves the results of the study, then funds for an EIR *and* preliminary plans could be provided in 1986–87.

For this reason, we recommend that this item be reduced by $40,000 in order to provide funding only for a study of the Berkeley laboratory facilities in the budget year.

Minor Capital Outlay

We recommend deletion of Item 4260-301-036(1) because the department should defer work at Fairfield until completion of the study evaluating alternatives for renovating the facility.

The budget proposes $48,000 under Item 4260-301-036(1) to replace the existing heating and air conditioning units at the Fairfield Animal Facility with more efficient units.

This project is premature. The department should complete the facility study of the Fairfield Animal Facility *before* investing state money in improvements which are not critical. We therefore recommend that funding for the project be deleted.

Overbudgeted Construction Funds

We recommend that the amounts approved for construction in Item 4260-301-036 be reduced by 3 percent to eliminate overbudgeting of construction costs.

The Governor's Budget requests $263,000 for the construction phase of capital outlay projects in 1985–86. Consistent with the state's budgetary practice, these amounts are based on an anticipated construction cost index for July 1, 1985. At the time the index was established for the budget year it was set at a reasonable level. Inflation, however, has not increased as anticipated. Using the most recent indices, adjusted by the current expected inflationary increase of about ½ percent per month, construction costs in the budget are overstated by approximately 3 percent. We therefore recommend that any funds approved for construction under this item be reduced by 3 percent to eliminate overbudgeting.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

Health and Welfare Agency

CALIFORNIA MEDICAL ASSISTANCE COMMISSION

Item 4270 from the General Fund — Budget p. HW 87

Requested 1985–86	$928,000
Estimated 1984–85	942,000
Actual 1983–84	576,000
Requested decrease (excluding amount for salary increases) $14,000 (−1.5 percent)	
Total recommended reduction	7,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. ***Technical Budgeting Issues. Reduce by $7,000.*** Recommend reduction to eliminate unjustified expenditures for general expenses and facilities operations.	788

GENERAL PROGRAM STATEMENT

The California Medical Assistance Commission (CMAC) was established by Ch 329/82 (AB 3480) to negotiate contracts with hospitals, county health systems, and health care plans for the delivery of health care services to Medi-Cal recipients. In addition, the commission is responsible for reporting to the Legislature twice each year on the status and cost-effectiveness of selective provider contracts.

During 1984–85, a total of 26.5 positions, including 7 commissioners, are authorized for the commission.

CALIFORNIA MEDICAL ASSISTANCE COMMISSION—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $928,000 from the General Fund for the support of the commission during 1985–86. This is a decrease of $14,000, or 1.5 percent, below estimated current-year General Fund expenditures. This decrease is due primarily to decreases in operating expenses. This reduction, however, does not take into account the cost of any increases in salary or benefits that are proposed for the budget year.

Total expenditures by the commission, including the expenditure of federal funds provided by the Department of Health Services, are proposed at $1,713,000 in 1985–86, a decrease of $48,000, or 2.7 percent, below estimated expenditures in the current year. This decrease is due primarily to the elimination of one negotiator position.

ANALYSIS AND RECOMMENDATIONS

Hospital Contracts Implemented

As of January 1985, 274 acute care hospital contracts had been signed in 70 of the state's 138 health facilities planning areas. These areas account for approximately 92 percent of Medi-Cal inpatient expenditures. Table 1 summarizes the status of hospital contracting.

Table 1
Contracts with Acute Care Hospitals
January 1985

1. Coverage	
a. Number of health facilities planning areas	138
b. "Closed" areas	70
c. Areas in which contracting has not been completed	68
2. Hospital participation	
a. Number of hospitals in closed health facilities planning areas	441
b. Number of nonacute care hospitals not eligible for contracts	48
c. Net number eligible for contracts	393
d. Number of current contracts	274
3. Estimated number of contract renegotiations in 1985–86	425

The current contracts do not have expiration dates but may be renegotiated at the request of either the commission or the hospital. The commission advises that most of the current contracts probably will be renegotiated at least once during the budget year. In many cases, contracts are renegotiated more than once in a year. The fiscal effects of these contracts are discussed in our analysis of the California Medical Assistance program (Medi-Cal).

Technical Budget Reductions

We recommend reductions totaling $7,000 from the General Fund and $6,000 from reimbursements to eliminate unjustified expenditures in general expenses and facilities operations.

The proposed budget includes $79,000 in general expenses, which is $6,000 above the $73,000 that the staff of the commission has identified as needed for 1985–86. The commission budget also proposes $13,000 for space management, buildings and grounds, and police services within funds budgeted for facilities operations. The commission's existing lease arrangements, however, are expected to require only $6,000 in 1985–86.