Health and Welfare Agency

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS

Items 4300-001 and 4300-101
from the General Fund and
Developmental Disabilities
Program Development Fund — Budget p. HW 88

Requested 1985–86	$344,460,000
Estimated 1984–85	296,182,000
Actual 1983–84	240,209,000
Requested increase (excluding amount for salary increases) $48,278,000 (+16.3 percent)	
Total recommended reduction	5,732,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4300-001-001—Support	General	$17,447,000
4300-001-172—Support	Developmental Disabilities Program Development	199,000
4300-101-001—Local assistance	General	317,651,000
4300-121-001—Local assistance	General	6,535,000
4300-101-172—Local assistance	Developmental Disabilities Program Development	2,628,000
Subtotal		$344,460,000
4300-001-890—Support	Federal	($78,000)
Reimbursements		(2,464,000)
Total		($347,002,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Cost-of-Living Adjustments (COLAs). Reduce Item 4300-101-001 by $3,362,000.*** Recommend reduction because there are no data available at this time to justify a COLA for residential care providers that exceeds the 4 percent increase proposed for other programs. 795
2. Residential Care Rate Adjustment. Recommend the Department of Finance (a) explain during budget hearings why it did not notify the Legislature that expenditures of current-year reimbursements would exceed the amounts anticipated and (b) advise the Legislature what steps it is taking to prevent additional failures to comply with Section 28. Further recommend that the Legislature amend the Budget Bill to display anticipated reimbursements. 796
3. Community Placement. Recommend that prior to budget hearings, the department submit data on persons entering and leaving state hospitals so that the Legislature can determine the amount of funding available within the base budget for community placements. 800

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

4. Prevention Plan. Recommend the Legislature adopt supplemental report language requiring the department to submit a report on prevention services. 802
5. ***Prevention Services. Reduce Item 4300-121-001 by $2,370,000.*** Recommend amount requested for prevention services be reduced because the proposed use of funds (a) does not appear to be the most effective and efficient means of increasing these services and (b) duplicates proposals made by the Department of Health Services. 803

GENERAL PROGRAM STATEMENT

The Department of Developmental Services (DDS) administers community- and hospital-based services for persons with developmental disabilities. The Lanterman Developmental Disabilities Services Act defines a developmental disability as a disability originating before a person's 18th birthday that is expected to continue indefinitely and that constitutes a substantial handicap. Such disabilities may be attributable to mental retardation, cerebral palsy, epilepsy, autism, neurologically handicapping conditions closely related to mental retardation, or mental impairment resulting from accidents that occur before age 18.

The department is authorized 416.5 positions in the current year, excluding state hospital staff, to carry out the following programs:

1. The *Community Services Program* develops, maintains, and coordinates services for developmentally disabled persons residing in the community. The program's activities are carried out primarily through 21 regional centers, which are operated statewide by private nonprofit corporations under contract with the department. The regional centers provide a variety of services, including (a) diagnosis, (b) development of individual program plans, (c) referral to and purchase of needed residential and nonresidential services, (d) monitoring of client progress, and (e) developmental disabilities prevention services. As part of the Community Services Program, the department also administers the Program Development Fund, which provides start-up funds for new community-based services.

2. The *Hospital Services Program* provides services in 8 of the state's 11 hospitals. Agnews, Fairview, Lanterman, Porterville, Sonoma, and Stockton hospitals operate programs exclusively for the developmentally disabled, while Camarillo and Napa hospitals operate programs for both the developmentally disabled and the mentally disabled through an interagency agreement with the Department of Mental Health.

Our analysis of state hospital programs for developmentally disabled persons is contained in our analysis of the budgets for the state hospitals (please see page 806).

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $341,633,000 from the General Fund to support the programs of the Department of Developmental Services, excluding state hospital programs, in 1985–86. This is an increase of $48,822,000, or 17 percent, above estimated current-year expenditures. This increase will grow by the cost of any salary or staff benefit increases approved for 1985–86.

Expenditures from all funding sources are proposed at $455,515,000 in the budget year. This is $60,174,000, or 15 percent, above estimated current-year expenditures. The two primary reasons for the proposed increase are (1) regional center caseload growth, service expansion, and cost increases ($42 million, of which $34 million is from the General Fund) and (2) a 4 percent cost-of-living increase proposed for regional centers ($13 million).

Table 1 displays program expenditures and funding sources for the department in the prior, current, and budget years.

Table 1
Department of Developmental Services
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*
Department support	$17,867	$18,301	$18,864	$563	3.1%
Community services	(310,847)	(377,040)	(436,651)	(59,611)	(15.8)
Regional centers	308,815	374,746	433,554	58,808	15.7
Program development grants	1,897	2,155	2,952	797	37.0
Cultural center	135	139	145	6	4.3
Totals	$328,714	$395,341	$455,515	$60,174	15.2%
Funding sources					
General Fund	*$237,622*	*$292,811*	*$341,633*	*$48,822*	*16.7%*
Developmental Disabilities Program Development Fund	*2,587*	*3,371*	*2,827*	*−544*	*−16.1*
Federal funds	*326*	*71*	*78*	*7*	*9.9*
SSI/SSP reimbursements	*87,031*	*96,951* [a]	*108,513*	*11,262*	*11.9*
Program development reimbursements	—	*1,018*	*1,324*	*306*	*30.1*
Support reimbursements	*1,148*	*1,119*	*1,140*	*21*	*1.9*

[a] This figure differs from the amount shown in budget documents due to revisions in the estimates.

ANALYSIS AND RECOMMENDATIONS

I. DEPARTMENT SUPPORT

The budget proposes a General Fund appropriation of $17,447,000 for support of the department in 1985-86. This is an increase of $532,000, or 3.1 percent, above estimated current-year expenditures. Total expenditures, including those supported by the Program Development Fund, reimbursements, and federal funds, are proposed at $18,864,000, which is $563,000, or 3.1 percent, above estimated current-year expenditures. Table 2 identifies the major changes in the department's support budget proposed for 1985-86.

The budget proposal does not include any funds for the estimated cost of salary increases ($100,000 in 1985-86) or inflation adjustments for operating expenses and equipment ($264,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

The budget proposes a total of 428.9 positions for department headquarters in 1985-86. This is an increase of 12.4 positions above the number authorized in the current year.

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

Table 2
Department of Developmental Services Support Proposed Budget Changes (dollars in thousands)

	General Fund	*All Funds*
1984–85 expenditures (Budget Act)	$15,890	$17,156
Adjustments, 1984–85		
1. 1984–85 salary and benefit increases	1,082	1,171
2. Other adjustments	−57	−26
1984–85 expenditures (revised)	$16,915	$18,301
Baseline adjustments, 1985–86		
1. Salary and benefits adjustments	$72	$73
2. Merit salary adjustments	—	11
3. Inflation adjustments for operating expenses and equipment	—	21
4. Other adjustments	48	46
Program change proposals		
1. Add two positions for hospital client support system	86	86
2. Add two positions for prevention	140	140
3. Transfer 13 continuing care services staff to regional centers	−439	−439
4. Add 23 positions for centralized accounting	625	625
1985–86 expenditures (proposed)	$17,447	$18,864
Change from 1984–85 (revised):		
Amount	532	563
Percent	3.1%	3.1%

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

- An increase of 23 positions for centralized accounting services. This increase is offset by a reduction of 31 positions from the state hospitals, for a net savings to the General Fund of $174,000.
- An increase of two positions to develop two computer modules for the Hospital Client Support System.
- A transfer of 13 positions from the Continuing Care Services Branch to the regional centers. The net General Fund savings resulting from the transfer is $40,000.
- An increase of two positions and $140,000 from the General Fund to implement the Statewide Prevention Plan.

II. REGIONAL CENTERS

The budget proposes an appropriation for $325,041,000 for regional centers in 1985–86, including $324,041,000 from the General Fund and $1 million from the Program Development Fund. This is an increase of $47,246,000, or 17 percent, above estimated current-year expenditures. Total expenditures, including the expenditure of SSI/SSP payments to residential care providers, are proposed at $433,554,000, which is an increase of $58,808,000, or 16 percent, above estimated current-year expenditures.

Table 3 displays the components of regional center expenditures for the prior, current, and budget years.

Table 3
Department of Developmental Services
Regional Centers Expenditures and Funding Sources
1983–84 through 1985–86
(dollars in thousands)

Program	Actual 1983–84	Estimated 1984–85	Proposed 1985–86	Change Amount	Change Percent
Operations					
Personal services	$60,122	$64,890	$75,483	$10,593	16.3%
Operating expenses	13,047	15,844	16,674	830	5.2
Subtotals	$73,169	$80,734	$92,157	$11,423	14.1%
Purchase of service					
Out-of-home care	$46,941	$69,588	$81,187	$11,599	16.7%
Day programs	32,693	41,201	47,714	6,513	15.8
Medical services	2,809	2,937	3,112	175	6.0
Respite/camps	6,316	7,010	7,429	419	6.0
Special services	19,515	21,559	22,847	1,288	6.0
Transportation	23,539	27,538	29,182	1,644	6.0
ICF-DD(h)	−16	—	—	—	—
Other	16,818	19,750	20,930	1,180	6.0
Subtotals	$148,615	$189,583	$212,401	$22,818	12.0%
Community placement	—	$6,478	$5,020	−$1,458	−22.5%
Prevention	—	1,000	2,370	1,370	137.0
Cost-of-living adjustment [a]	—	—	13,093	13,093	NA
Subtotals	$221,784	$277,795	$325,041	$47,246	17.1%
SSI/SSP reimbursements	$87,031	$96,951 [b]	$108,513	$11,562	11.9%
Totals	$308,815	$374,746	$433,554	$58,808	15.7%
Funding sources					
General Fund					
Regional centers	*$221,241*	*$275,757*	*$324,041*	*$48,284*	*17.5%*
SSP [c]	*37,423*	*41,689*	*46,661*	*4,972*	*11.9*
Program Development Fund	*543*	*2,038*	*1,000*	*−1,038*	*−50.9*
Federal funds (SSI) [c]	*49,608*	*55,262*	*61,852*	*6,590*	*11.9*

[a] Does not include the amount for cultural centers.
[b] This figure differs from the amount shown in the budget change proposal due to revisions in the estimates.
[c] Assumes funding split of 43 percent General Fund and 57 percent federal funds.

Table 4 shows the changes to the budget for regional centers proposed for 1985–86.

Regional Center Caseload Estimates

The department estimates that regional center caseload will be 80,546 in 1985–86. This is an increase of 4,824, or 6.4 percent, above estimated current-year caseload. This caseload estimate will be revised by the department in May, when additional data on clients become available. Table 5 shows the increases in caseload for 1981–82 through 1985–86.

Client Characteristics

Developmentally disabled clients in the community have varying levels of disability, and thus have many different service needs. Approximately 66 percent of community clients reside at home or in an independent living arrangement; 34 percent reside in a long-term care or a community care facility. Some of these clients have medical or behavior problems or visual impairments that affect placements. Table 6 displays some of the major disabilities that impair the lives of community clients.

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

Table 4
Regional Centers Proposed Budget Changes
(dollars in thousands)

	Operations	*Purchase of Services*
1984–85 expenditures (Budget Act)	$81,965	$195,287
Adjustments:		
1. Medi-Cal waiver staffing	344	–344
2. Community placement increase	—	543
1984–85 expenditures (revised)	$82,309	$195,486
Caseload and cost increases	$11,423	$22,818
Program change proposals		
1. Community placement plan	116	–1,574
2. Prevention	1,300	70
Subtotals	$95,148	$216,800
Cost-of-living adjustment	384	12,709
1985–86 expenditures (proposed)	$95,532	$229,509
Change from 1984–85 (revised):		
Amount	$13,223	$34,023
Percent	16.1%	17.4%

Table 5
Department of Developmental Services
Regional Centers' Midyear Caseload
1981–82 through 1985–86

	Number of Clients	*Increase Over Previous Year*	*Percent Change*
1981–82	64,221	1,898	3.0%
1982–83	68,473	4,252	6.6
1983–84	70,898	2,425	3.5
1984–85 (estimated)	75,722	4,824	6.8
1985–86 (proposed)	80,546	4,824	6.4

Table 6
Characteristics of Developmentally Disabled Clients in the Community

Retardation Level:	23% are profoundly or severely retarded, 57% are moderately or mildly retarded, 20% have an average IQ or have not been diagnosed
Behavior Assessment:	5% have severe behavior problems, 21% have moderate or minimal behavior problems, 74% have no behavior problems
Visual Impairment:	3% are totally or near blind, 2% have profound or severe impairment, 9% have moderate impairment, 86% have not been assessed or have normal or near normal vision
Hearing Impairment:	3% have profound or severe hearing loss, 6% have moderate or mild loss, 91% have no loss or have not been diagnosed
Major Medical Problems:	6% have two or more major medical problems, 14% have a major medical problem, 80% have no major medical problems
Physiologic or Neurophysiologic Impairments:	8% have three or more impairments, 18% have two impairments, 35% have one impairment, 39% have no impairments

Residential Care Rate Study

Current law requires the department to set rates for out-of-home care based upon the following elements: (1) basic living needs, (2) amount of supervision provided to clients, and (3) administrative services and facility maintenance. The law requires the department to adjust these rates annually to reflect increases in the cost-of-living and to redetermine the cost of basic living needs every three years.

The last rate study was conducted for the 1981–82 fiscal year. Based upon the findings of this study, the department recommended an 18.5 percent rate increase. The Legislature provided a 6 percent increase in 1981–82 and a 12.5 percent increase in 1984–85, bringing the total increase since 1981–82 to 18.5 percent. Table 7 shows the 1984–85 rates for residential care.

Table 7
Department of Developmental Services
Schedule of Maximum Allowances
Community Residential Care for the Developmentally Disabled
1984–85
(dollars per month per client)

Level of Supervision and Training Required	*Facility Bed Size* 1–6	7–15	16–49	50+
Minimum	$596	$617	$680	$673
Moderate	759	782	844	836
Intensive	868	890	953	945

The department currently is conducting audits of a sample of 81 facilities to redetermine the cost of basic living needs. These data will be available in the spring.

Residential Care Cost-of-Living Adjustment

We recommend a reduction of $3,362,000 from the General Fund to reduce cost-of-living adjustments (COLAs) for residential care providers in excess of the 4 percent discretionary COLA proposed for other programs.

The budget requests $7,498,000 from the General Fund to provide a 4 percent cost-of-living adjustment (COLA) for residential care providers. This amount was calculated based on the entire amount proposed to be spent for residential care in 1985–86, including the portion funded by SSI/SSP reimbursements. In addition, the budget proposes to increase residential care rates by $3,362,000 to "pass through" the January 1, 1986, SSI/SSP adjustment. This would amount to an additional 3 percent provider rate increase in January 1986.

The department currently is conducting audits of residential care facilities to determine what it costs to provide for the basic living needs of developmentally disabled clients receiving residential care. The results of

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

this audit will be released by the department in the spring. Until these results are available, there is no analytical basis for increasing residential care rates by more than the standard 4 percent proposed as a discretionary COLA for other local assistance programs in the budget.

On this basis, we recommend deletion of the $3,362,000 requested to provide a cost-of-living adjustment on top of the 4 percent adjustment for residential care providers. In the event the department's rate study establishes a need for an additional increase to the reimbursement rates for these providers, we will modify our recommendation accordingly.

The Department Once Again Has Increased Residential Care Rates Without Authorization

We recommend that:

1. The Department of Finance (a) explain during budget hearings why it did not notify the Legislature that the expenditure of current-year reimbursements would exceed the amounts anticipated, as required by Section 28 of the 1984 Budget Act and (b) what steps it is taking to prevent the Department of Developmental Services from continuing to circumvent the Section 28 process.

2. The Legislature amend the Budget Bill to display all anticipated reimbursements in Items 4300-101-001 and 4300-121-001.

In the 1984 Budget Act, the Legislature appropriated $69,587,000 from the General Fund to the department for out-of-home care services. This appropriation assumed that total costs in 1984–85 would be $164,854,000 and that $95,267,000 in SSI/SSP reimbursements would be received to fund a portion of these costs. The $69,587,000 appropriated from the General Fund represented the residual amount that the Legislature believed was needed to fund these services in the current year.

Actual SSI/SSP reimbursements for the current year are now estimated at $96,951,000, or $1,684,000 more than what originally was projected. The reason for this increase is that the actual SSI/SSP rate increases given in January 1985 were larger than what they were expected to be when the department prepared its May revision of expenditures. The May revision assumed a monthly SSI/SSP grant level of $486, effective January 1985; the actual increase granted by the Legislature provided a $503 per month grant for eligible developmentally disabled clients.

Ordinarily, unanticipated increases in SSI/SSP grant payments are used to offset the General Fund cost of providing residential care. The department, however, chose instead to use the additional reimbursements to increase rates paid to out-of-home care providers by 1 percent. This was on top of the 12.5 percent increase approved by the Legislature.

Section 28 of the 1984 Budget Act requires the Department of Finance to notify the Legislature at least 30 days before it approves any augmentations to the expenditure levels proposed to and considered by the Legislature when it acted on the Budget Bill. The department, however, *failed to notify the Legislature* that the unanticipated reimbursements (1) were available and (2) would be used for additional rate increases.

This is the second time in recent years that the Department of Developmental Services has circumvented the Section 28 process in increasing the rates paid to out-of-home care providers. In 1979–80, the Legislature granted a 6 percent cost-of-living adjustment to these providers. In that year, the department also used unanticipated increases in SSI/SSP reimbursements to grant an additional 2 percent increase to residential care providers without notifying the Legislature through the Section 28 process. When the Chairman of the Joint Legislative Budget Committee learned of the department's action, he requested on behalf of the committee that the Director of Finance not authorize the use of funds to provide the additional rate increase. He did so because (1) the DDS had acted illegally in authorizing the rate without first providing the Legislature 30 days' advance notice and (2) the DDS provided no justification identifying the need to increase the rate to that particular group. Accordingly, the Director of Finance did not approve the rate increase. At the suggestion of the Chairman, however, the Director did not require the DDS to recover from regional centers the misspent funds. The DDS' actions contributed to a deficiency in its budget for 1979–80.

Violations of the notification requirements set forth in Section 28 are always serious. This violation, however, is especially serious, since it represents the second time in five years that the department has chosen to increase provider rates without authorization. Obviously, the existing controls on this department's expenditures are not adequate.

We recommend that during budget hearings, the Department of Finance (1) explain why the Legislature was not notified in advance that the expenditure of reimbursements would exceed the level anticipated by the Legislature, as Section 28 of the 1984 Budget Act requires and (2) advise the Legislature what steps it is taking to prevent the Department of Developmental Services from continuing to circumvent the Section 28 process.

To facilitate legislative review of Department of Developmental Services funding requirements, we further recommend that the Budget Bill be amended to display all anticipated SSI/SSP reimbursements in Items 4300-101-001 and 4300-121-001.

Federal Support for Home- and Community-Based Programs

The budget assumes that the General Fund will receive $19,295,000 in revenues as a result of the federal government's action to extend the Medicaid waiver for home- and community-based programs. This waiver, which became effective on April 25, 1984, retroactive to July 1, 1982, allows Medicaid reimbursement for the following home- and community-based services provided by regional centers: (1) personal support and habilitation, (2) adult day training, (3) transportation, (4) case management services and administration, (5) respite care, and (6) homemaker and home health services.

The caseload covered by the waiver was 603 in 1983–84, resulting in revenues to the General Fund of approximately $2,516,000. The department estimates that this caseload will be 2,458 in the current year, producing revenues to the General Fund of $17,236,000.

The federal waiver is scheduled to expire June 30, 1985. The department is preparing an application for a three-year extension of the waiver. If the waiver is not approved, the $19 million in revenues that the budget anticipates will not be realized.

Regional Centers Fiscal Management

The 1985 Budget Bill contains language that would require regional centers to administer their programs so as to stay within the funding provided in their contracts. This language also:

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

- Requires the regional centers to submit a written plan detailing the methods that will be used to eliminate a projected deficiency.
- Authorizes the department to transfer funds from regional center operations to eliminate a deficiency in a regional center's purchase-of-services budget.
- Requires regional centers to use an interdisciplinary team process when it becomes necessary to reduce a client's services.
- Prohibits the regional centers from making categorical reductions in services in order to reduce a deficiency.
- Requires the department to submit to the Joint Legislative Budget Committee, within 30 days after the end of each quarter, a report on the financial status of all regional centers.

This language is similar to language that is contained in the 1984 Budget Act. The language was placed in the 1984 Budget Act in order to ensure that regional centers limit expenditures so as to stay within their allotments. Previously, a process for controlling expenditures by the regional centers had been implemented under the provisions of Chapter 16, First Extraordinary Session, Statutes of 1983 (AB 40x). This measure, which expired on June 30, 1984, authorized the department to establish emergency regulations and administrative procedures to prevent regional center deficiencies.

Chapter 16x, Statutes of 1983. In April 1983, the department projected that at then-current expenditure trends, the $129.7 million authorized for purchase of services in 1982–83 would not be sufficient to cover the costs of these services to the regional centers, and that a $6.8 million deficiency would arise. The department funded $2.5 million of the projected deficiency by redirecting funds from the state hospitals' budget. To address the remaining deficit of $4.3 million, the Legislature enacted Ch 16x/83, which appropriated $3.1 million for 1982–83 unfunded costs and authorized the department to adopt emergency regulations and procedures to reduce projected cost overruns in both 1982–83 and 1983–84. The measure also (1) prescribed procedures and timelines for administrative hearings on appeals related to decisions by regional centers to terminate or reduce services to specified individuals and (2) authorized a study by the Assembly Office of Research of funding and organizational issues related to the state's provision of services for developmentally disabled persons.

Pursuant to Chapter 16x, the department adopted emergency regulations in August 1983 that were intended to limit expenditures for services in 1983–84 to the amount appropriated by the 1983 Budget Act. The regulations (1) allowed regional centers to purchase services only if the client's need for the service is documented on the individual program plan and no other public agency is responsible for providing the service and (2) provided for service reductions, as specified, if necessary to prevent cost overruns.

1983–84 Deficiency. Despite the emergency regulations, the regional centers incurred a deficit for 1983–84. In February 1984, the department submitted a report to the Legislature indicating that regional centers anticipated a $4,817,000 deficit for that year. The department estimated that the deficit could be eliminated through the following combination of actions: (1) apply the service standards authorized in Ch 16x/

83, saving $2,223,000, (2) achieve other savings in purchase of services, amounting to $1,486,000, and (3) redirect funds from the regional centers operations budget to the purchase-of-service budget, making an additional $1,108,000 available.

The actual deficit for 1983–84 was $1,637,000. On January 9, 1985, the Joint Legislative Budget Committee received notification of the department's intent to transfer (1) $423,000 from the state hospitals' budget and (2) $742,800 from regional centers' operations, to reduce the prior-year deficiency. The department indicates that it does not intend to finance the remaining prior-year deficit of $471,000 because (1) it does not have additional funds available for transfer and (2) the five regional centers accounting for this deficit did not comply with Chapter 16x requirements. The department advises that two of the five regional centers have submitted claims for payment to the state Board of Control.

Current-Year Expenditure Trends. The department's most recent projections indicate that regional centers will have a net $2,119,000 surplus in 1984–85. The department projects that 8 regional centers will have deficits and 13 regional centers will have surpluses. Table 8 displays the total contract amount and potential surpluses or deficits for each regional center.

Table 8
Department of Developmental Services
Regional Centers Contracts
1984–85
(dollars in thousands)

Regional Center	*Current Contract*	*Estimated Expenditures*	*Projected Surplus or Deficit (–)*
Alta California	$14,013	$13,685	$328
Central Valley	15,162	15,145	17
East Bay	19,300	19,066	333
Eastern L.A.	8,919	8,253	666
Far Northern	6,939	6,940	–1
Frank D. Lanterman	12,623	11,689	934
Golden Gate	14,435	13,709	726
Harbor	12,210	12,268	–58
Inland Counties	15,766	14,899	867
Kern	4,945	4,932	13
North Bay	11,578	11,629	–51
North L.A.	15,339	14,769	570
Orange	18,410	18,911	–501
Redwood Coast	5,465	5,370	95
San Andreas	13,332	14,478	–1,146
San Diego	18,555	19,327	–772
San Gabriel Valley	16,694	16,320	374
South Central	14,081	14,490	–409
Tri-Counties	13,289	12,886	403
Valley-Mountain	11,591	11,950	–359
Westside	8,009	7,919	90
Totals	$270,754	$268,635	$2,119

Proposed Budget Bill Language. The proposed Budget Bill language requires regional centers to manage their activities so as to keep their costs within the funds allocated by the department. This language is consistent with past legislative policy and should promote better management by the regional centers. Consequently, we recommend that the language be approved.

Community Placement of State Hospital Residents

We recommend that prior to budget hearings, the department submit to the Legislature estimates of (1) the proportion of persons entering state hospitals who are regional center clients, (2) the costs of services provided to these clients, and (3) the number of state hospital residents that are expected to enter ICF-DD(h) facilities.

The budget requests $5,020,000 from the General Fund for the regional centers to use in placing state hospital residents into the community. This is a reduction of $1,458,000, or 23 percent, from current-year estimated expenditures. In addition, the department has identified $1,521,000 in the state hospital's budget that will be utilized for purchase of services as the clients are removed from the state hospitals. Consequently, the budget proposes a total of $6,541,000 for community placement, which is approximately equal to current-year expenditures.

The funds would be used to place 750 clients in community facilities. The department projects that 515 clients will enter the hospitals and that 145 patients will die. Therefore, the net decrease in the state hospital population reflected in the budget is 380.

The funds requested for community placement include:

- $750,000 for initial operating costs of 50 facilities serving approximately 300 clients.
- $902,000 for community placement staff at the regional centers.
- $4,889,000 for client services, based on 750 clients, at costs per client of (1) $93 per month for regional center operations and (2) $1,071 per month for community services, for an average of six months.

Background. For calendar years 1981 through 1983, the department noted a decrease in the rate at which regional centers were placing state hospital clients into the community. There were two reasons why the number of community placements had decreased: (1) the clients remaining in the state hospitals generally have greater developmental needs and (2) funding support for staff performing placement functions had decreased.

The 1984 Budget Act includes $6,478,000 from the General Fund to place 810 state hospital residents in community facilities. This will result in a net reduction in the state hospital population of 430 clients due to the fact that 530 clients are expected to enter the hospitals and that 150 patients will die during the current year. The majority of the 810 clients will be placed during the latter part of the fiscal year. Table 9 displays the number of state hospital clients that each regional center has contracted to place in 1984–85 and the total placements actually made through December 1984.

Community Placement Overbudgeted. Our analysis indicates that the department has not identified all of the funds that potentially are available for community placement. Specifically, the budget proposal does not recognize that state funds used to support developmentally disabled clients will be freed up when clients enter the state hospital from home and community facilities. If all 515 persons that enter state hospitals in 1985–86 previously were regional center clients receiving a full range of services, we estimate that approximately $3.3 million in the regional cen-

Table 9
Community Placements by Regional Center
1984–85

Regional Center	*Number of Projected Placements*	*Actual Placements July–December 1984*
Alta California	30	9
Central Valley	10	16
East Bay	78	26
Eastern L.A.	20	5
Far Northern	50	4
Frank D. Lanterman	32	13
Golden Gate	39	9
Harbor	78	4
Inland Counties	79	4
Kern	24	14
North Bay	37	8
North L.A. County	23	10
Orange County	47	6
Redwood Coast	18	7
San Andreas	65	14
San Diego	26	4
San Gabriel Valley	15	4
South Central L.A.	51	21
Tri-Counties	13	6
Valley-Mountain	56	7
Westside	19	3
Totals	810	194
Less clients entering state hospitals	–530	–145
Plus client deaths	150	80 [a]
Net reduction in state hospital population	430	129

[a] Estimate.

ter budget would be available for community placement. Consequently, the community placement plan would be overbudgeted by this amount.

In addition, the plan does not consider that some clients will be placed in ICF-DD (h) facilities. The cost of out-of-home care for clients in these facilities is paid for by the Medi-Cal program, not the regional centers. In the current year, 317 of the clients leaving the state hospitals, or 39 percent of all placements, are expected to be placed in ICF-DD (h) facilities. If 293 clients, or 39 percent of the placements, are placed in ICF-DD (h) facilities in the budget year, the community placement plan will be overbudgeted by approximately $3.4 million.

We have no basis for determining what proportion of persons entering state hospitals are regional center clients and what level of services they previously received in the community. We are also unable to estimate the number of state hospital residents that will be placed in ICF-DD (h) facilities. Therefore, we are not in a position to recommend a change in the Budget Bill. We recommend, however, that the department submit to the Legislature, prior to budget hearings, estimates of (1) the number of regional center clients that will enter the hospitals, (2) the cost of providing services for these clients, and (3) the number of clients expected to enter ICF-DD (h) facilities.

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

Prevention Plan

We recommend that the Legislature adopt supplemental report language requiring the department, through the Office of Prevention, to determine by January 1, 1986, (1) the current level of prevention services provided and the cost of services per client and (2) an estimate of the type and level of services needed in each county.

In the fall of 1984, the Office of Prevention, through an interagency task force, presented a statewide developmental disabilities prevention plan containing several recommendations for increasing services. Three departments that currently provide prevention services have submitted budget proposals to implement the prevention plan in 1985–86.

The Department of Health Services operates major programs for the prevention of developmental disabilities. These programs and services include (1) professional and public education, (2) family planning, (3) genetic diagnosis and counseling, (4) comprehensive perinatal care, (5) newborn screening, (6) high-risk infant identification and follow-up, (7) health screening for children, and (8) pediatric care. In addition, the Departments of Education and Developmental Services provide certain prevention services.

The interagency prevention plan presents many proposals for increased services. The plan is deficient, however, because it does not assess the current level of services needed in each area of the state, the level of services currently provided, and the cost per client of each service provided by the various departments and other entities.

1. Current Level of Services. Many prevention services currently are provided by the state, counties, physicians, and private organizations. Our analysis indicates that the level of additional services needed varies among different areas of the state. For example, some areas have active perinatal councils and accessible genetic counseling centers. In addition, other factors that influence the level of services needed, such as the incidence of infant mortality and teenage pregnancy, vary significantly across the state.

Without identifying the current levels of services available in different areas of the state, state agencies are unable to focus new services in the areas with the greatest need for services.

2. Cost of Providing Services. Several types of services are provided by two or more departments. For example, infant programs are funded by the Departments of Health Services and Education, as well as by the regional centers.

The prevention plan does not specify the cost of the programs provided by different state agencies. Without this information, the Legislature cannot determine which programs are more effective at delivering necessary services and thereby maximize the amount of service available.

To assist the Legislature determine what additional prevention services are needed and how these services should be provided, we recommend the adoption of supplemental report language requiring the Department of Developmental Services, through the Office of Prevention, to report by January 1, 1986, the current level of prevention services available, the average cost of service per client, and the type and amount of prevention services needed in each county. Specifically, we recommend that the

Legislature adopt the following language:

"The Department of Developmental Services shall, by January 1, 1986, submit a report to the Legislature that estimates the availability of the following services: perinatal care, early intervention, genetic services, and prevention education and outreach. The report should estimate, by county, the (1) number of clients served, (2) number of potential clients for whom services are unavailable, (3) expenditures for each type of service, and (4) estimated costs of providing services to all eligible individuals. In addition, the report should identify current providers of services and the methodology used to determine unmet service needs."

Proposed Increase in Expenditures for Prevention

We recommend a reduction of $2,370,000 from the General Fund because the proposal (1) does not appear to be the most effective and efficient means of increasing necessary services and (2) is duplicative of the Family Health Initiative proposed by the Department of Health Services.

Existing law requires regional centers to secure or provide prevention services to eligible high-risk infants and parents. The law further states that prevention services are of equal priority to other basic services such as intake, diagnosis, and assessment.

The budget proposes that (1) $584,000 be redirected from the regional centers' operations budget to support prevention-related services at the regional centers and (2) this amount be augmented by $2,370,000 from the General Fund. The proposal would add $350,000 to the regional centers' purchase-of-service budget and 63 positions in regional centers to provide prevention services to 1,900 pregnant women and children.

Under the proposal, each of the 21 regional centers would receive (1) a coordinator who would be responsible for overall management of prevention services, (2) a genetic associate to provide genetic screening and counseling, and (3) a case manager to provide assessment, referral, and individual case coordination for high-risk infants.

In the current year, 10 prevention projects were funded from the Program Development Fund, at a cost of $1 million. Many of these projects are targeted towards specific populations and primarily provide genetic counseling and early intervention services. The department proposes to continue nine of these projects at a cost of $864,000. Funds for the staff associated with these projects comprise the $584,000 redirected from the regional center budget. The remaining project is one-time in nature.

We fully support the department's objective to decrease the incidence of developmental disabilities. We believe that prevention programs, if successful, are justified from both a humanitarian and fiscal standpoint. Nevertheless, we are unable to recommend that this proposal be approved. Our analysis indicates that it is duplicative of existing and proposed programs and costs more than other programs that provide similar services. We discuss each component of the proposed program below.

1. Genetic Services. Genetic services currently are provided through the Genetic Disease Branch of the Department of Health Services (DHS). The Genetic Disease Branch estimates that in 1985–86, approximately 47 percent of the women needing genetic counseling will receive services.

In support of its budget proposal, the Department of Developmental Services indicates that increasing the budget of the Genetic Disease

DEPARTMENT OF DEVELOPMENTAL SERVICES—EXCLUDING STATE HOSPITALS—Continued

Branch in order to increase genetic counseling services is not a viable alternative because (1) it would only slightly improve the current system and (2) outreach and the provision of services to rural areas would still be a problem. To solve this problem, the department proposes to fund a genetic associate in *each* regional center, regardless of whether the Genetic Disease Branch currently provides counseling services in the regional center area or whether the area served is urban.

The costs of providing genetic services under the department's proposal are significantly greater than the costs being incurred by DHS. The department currently estimates that the cost per client served under its program would be $1,183. In contrast, the DHS Genetic Disease Branch contracts for services at a cost of approximately $800 per client.

Our analysis indicates that the department's proposal does not clearly identify what improvements are needed in the current system for providing genetic services, nor does it respond to the perceived inadequacy of services in rural areas. It is not clear to us that providing services through the regional centers will be more effective than the current program.

2. High-Risk Infant Case Managers. The DHS will fund projects for approximately 2,800 high-risk infants in 1984–85 and proposes to serve 4,030 infants through 15 contracts in 1985–86. The Department of Developmental Services (DDS) proposes to provide high-risk infant services to 1,260 clients.

The costs of providing the services through DHS are less than the costs of the program proposed by the DDS. Based on preliminary estimates by DDS, the cost of early intervention services will average $851 per infant. The DHS estimates the average cost of providing services through its high-risk infant program to be $546 per infant.

Here again, our analysis indicates that the DDS has not focused on the areas of greatest need. The DHS proposes 15 contracts throughout the state in 1985–86. Rather than concentrating additional high-risk infant services in areas where there are no other high-risk infant services available, the department proposes to fund one high-risk infant case manager in each regional center area, regardless of whether there are other services available in the area.

3. Prevention Coordinators. According to the Department of Developmental Services, the proposed regional prevention coordinators will be responsible for:

- Assessing the causes of new developmental disability cases and developing local strategies to prevent occurrence.
- Establishing liaison with other necessary service agencies to assure proper identification of high-risk cases.
- Coordinating outreach.
- Increasing utilization of available resources.

This appears to be duplicative of programs that DHS proposes to fund in 1985–86. Specifically, the DHS requests $1,200,000 for counties to use in developing community perinatal programs that would identify local perinatal needs and problems, and coordinate available perinatal resources.

In addition, the DHS proposes to increase funding for regional perinatal health systems that are responsible for identifying the availability of and coordinating high-risk perinatal services.

Some regional centers have determined that prevention is a priority and have provided services *within* their current budgets and current level of staffing. The department's proposal does not take this into account. Nor has the department determined which regional centers are most in need of additional services based upon (1) the availability of other services in the area and (2) the incidence of factors such as teenage pregnancy that are likely to increase the probability of developmental disabilities.

Additionally, the department has not established policies and procedures to ensure that regional centers make the most effective use of locally available prevention services. The department has not required all regional centers to develop an inventory of prevention services available in their region. Identification of available resources could lead to increased use of prevention services. The department also has not implemented procedures to improve the sharing of prevention-related information and programs among regional centers and between the regional centers and the department.

In sum, we conclude that the department's proposal (1) does not appear to be the most efficient and cost-effective method of delivering additional perinatal services and (2) appears to be duplicative of budget proposals by the Department of Health Services. For these reasons, we recommend deletion of the proposed $2,370,000 augmentation.

III. PROGRAM DEVELOPMENT GRANTS

Program Development Fund Proposal

We recommend approval.

The Developmental Disabilities Program Development Fund (PDF) was established by Ch 1369/76. The PDF is supported by federal funds from the State Council on Developmental Disabilities and by fees collected from parents of minor children in out-of-home care.

The budget proposes expenditures of $4,151,000 from the PDF in 1985–86, consisting of $2,827,000 from parental fees and $1,324,000 from federal reimbursements. This is a decrease of $238,000, or 5.4 percent, below current-year expenditures. This decrease primarily reflects the availability of carry-over funding in the current year that will not be available in 1985–86.

The proposed expenditures include $199,000 to support four positions in the department, $1 million for community placement, and $2,952,000 for new program start-up grants.

PDF grant funding for new programs is limited to 24 months. The ongoing costs of new programs must be funded from the regional centers purchase-of-services budget. The budget for regional centers in 1985–86 proposes a General Fund augmentation of $2,185,000 to support programs started with PDF funds in 1984–85.

Health and Welfare Agency

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS

Item 4300-111, 4440-011, and 4440-121 from the General Fund — Budget p. HW 92

Requested 1985–86	$631,721,000
Estimated 1984–85	631,172,000
Actual 1983–84	548,004,000
Requested increase (excluding amount for salary increases) $549,000 (+0.1 percent)	
Total recommended reduction	5,741,000
Recommendation pending	14,584,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4300-111-001—Department of Developmental Services	General	$378,845,000
4300-111-890—Department of Developmental Services	Federal	(895,000)
4440-011-001—Department of Mental Health—judicially committed clients	General	98,045,000
4440-121-001—Department of Mental Health—county clients	General	154,831,000
Total		$631,721,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Staffing Reductions Related to Population Changes. Withhold recommendation on staffing reductions related to changes in the developmentally disabled population, pending receipt of additional data. 812
2. ***Laundry Service Proposal. Reduce Item 4300-111-001 by $261,000.*** Recommend reduction because the price to be paid for laundry services is too high. 814
3. Equipment Purchases. Recommend adoption of supplemental report language requiring the Department of Developmental Services to report on the condition of its equipment inventory and its plans to address equipment deficiencies. 816
4. Unit Dose System. Recommend adoption of supplemental report language requiring the Department of Developmental Services to report on implementation of the unit dose pharmacy system. Further recommend that the Department of Mental Health report by April 15, 1985, on the feasibility of expanding the unit dose system to Atascadero and Patton State Hospitals. 817
5. Future Use of State Hospitals. Recommend adoption of supplemental report language requiring the Department of Developmental Services to submit a report on future plans 820

for use of state hospitals.

6. Mental Health State Hospital Staffing Initiative. Withhold recommendation on 209 new positions requested for mental health hospital programs, pending further review. Recommend the department provide the Legislature with specified information needed to facilitate review of the proposal. 826
7. *Special Repairs. Reduce Item 4300-111-001 by $486,000.* Recommend deletion of two special repair projects and withhold recommendation on special repair projects for Camarillo State Hospital, pending resolution of population issues. 829
8. *Mental Health Bed Buy-Out Proposal. Reduce Item 4440-101-001 by $10,045,000 and augment Item 4440-121-001 by $5,045,000.* Recommend (a) rejection of proposal to eliminate 399 state hospital beds, for a net reduction of $5 million, and (b) adoption of supplemental report language requiring the department to report on the feasibility of making large reductions in the number of state hospital beds for mentally disabled county clients. 830
9. *Mental Health State Hospital Population Trends. Reduce Reimbursements in Item 4440-011-001 by $1,818,000.* Recommend reduction in funding from Department of Corrections because the number of inmates served at Atascadero State Hospital has not reached projected levels. Withhold recommendation on other population changes until more data become available. 832

GENERAL PROGRAM STATEMENT

The state operates 11 hospitals that provide services to mentally disabled and developmentally disabled clients. Eight of the 11 hospitals are under the jurisdiction of the Department of Developmental Services. The remaining three hospitals are operated by the Department of Mental Health. The Department of Mental Health also manages programs for the mentally disabled at two state hospitals operated by the Department of Developmental Services. The 11 hospitals and their locations are:

	Hospital	*County*
Department of Developmental Services	Agnews	Santa Clara
	Camarillo	Ventura
	Fairview	Orange
	Lanterman	Los Angeles
	Napa	Napa
	Porterville	Tulare
	Sonoma	Sonoma
	Stockton	San Joaquin
Department of Mental Health	Atascadero	San Luis Obispo
	Metropolitan	Los Angeles
	Patton	San Bernardino

The hospitals have 18,863 authorized positions in the current year.

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $662,133,000 (all funds) for support of the state's 11 hospitals in 1985–86. This is an increase of $2,958,000, or 0.4 percent, above estimated current-year expenditures. The proposed General Fund appropriation of $631,721,000 is $549,000, or 0.1 percent, above estimated current-year expenditures. The increase will grow by the cost of any salary or staff benefit increases approved by the Legislature for the budget year.

Table 1 displays state hospital expenditures, funding sources, population, positions, and cost per client for the prior, current, and budget years.

Table 1
Expenditures, Funding Sources, Population, Positions, and Cost Per Client 1983–84 through 1985–86

	Actual 1983-84	*Estimated 1984–85*	*Proposed 1985–86*	*Change Amount*	*Change Percent*
A. Expenditures and funding sources (dollars in thousands)					
Developmentally disabled clients	$343,661	$390,742	$388,258	−$2,484	−0.6%
Mentally disabled clients	223,612	268,433	273,875	5,442	2.0
Totals	$567,273	$659,175	$662,133	$2,958	0.4%
General Fund	*$548,004*	*$631,172*	*$631,721*	*$549*	*0.1%*
Federal funds	*832*	*880*	*895*	*15*	*1.7*
Reimbursements	*18,437*	*27,123*	*25,658*	*−1,465*	*−5.4*
SAFCO	—	—	*3,859*	*3,859*	—
B. Average population	12,283	11,999	11,298	701	−6.2%
C. Authorized positions	16,810	18,863	17,559	−1,304	−6.9%
D. Cost per client	$44,615	$54,936	$58,606	$3,670	6.7%

ANALYSIS AND RECOMMENDATIONS

A. PROGRAMS FOR THE DEVELOPMENTALLY DISABLED

The Department of Developmental Services operates the eight state hospitals (Agnews, Camarillo, Fairview, Lanterman, Napa, Porterville, Sonoma, and Stockton) that have programs for the developmentally disabled.

The budget proposes expenditures of $388,258,000 (all funds) for programs to serve developmentally disabled clients in 1985–86. This is a decrease of $2,484,000, or 0.6 percent, below estimated current-year expenditures. The proposed General Fund appropriation of $378,845,000 is $4,193,000, or 1.1 percent, below estimated current-year expenditures.

The budget projects an average population of 6,859 developmentally disabled clients in 1985–86, which is 323 clients, or 4.5 percent, less than the current-year level. The budget proposes 10,467 positions in programs for developmentally disabled clients, which is 736 positions, or 6.6 percent, below current-year authorized levels.

The average cost per client in 1985–86 is projected to be $56,606, an increase of $2,200, or 4.0 percent, above the cost per client in the current year. The increases in costs and cost per client make no allowance for any salary or benefit increases that may be authorized by the Legislature for

1985–86. *The 1984–85 cost-of-living increases added $4,595 to the average cost per client per year.*

Table 2 displays expenditures, funding sources, population, positions, and cost per client in programs for the developmentally disabled.

Table 2
State Hospitals
Programs for the Developmentally Disabled
Expenditures, Funding Sources, Population, Positions, and Cost per Client
1983–84 through 1985–86

	Actual 1983–84	*Estimated 1984–85*	*Proposed 1985–86*	*Change Amount*	*Change Percent*
A. Expenditures and funding sources (dollars in thousands)	$343,661	$390,742	$388,258	–$2,484	–0.6%
General Fund	*337,260*	*383,038*	*378,845*	*–4,193*	*–1.1*
Federal funds	*832*	*880*	*895*	*15*	*1.7*
Reimbursements	*5,569*	*6,824*	*5,374*	*–1,450*	*–21.2*
SAFCO	—	—	*3,144*	*3,144*	*NA*
B. Average population	7,459	7,182	6,859	–323	–4.5
C. Authorized positions	10,579	11,203	10,467	–736	–6.6
D. Cost per client	$46,073	$54,406	$56,606	$2,200	4.0%

Budget Changes

Table 3 shows the changes to the current-year budget proposed for 1985–86. The budget proposes a net reduction of $4.2 million from estimated current-year General Fund expenditures. Major increases that affect 1985–86 expenditures are a 5 percent increase for operating expenses, augmentation of the equipment and special repair budgets, and full-year costs for the 1984–85 salary and benefit increases. Major decreases that affect 1985–86 expenditures result from population reductions, reductions in administrative positions, reduced overhead cost at Stockton State Hospital, more efficient pharmacy and food preparation systems, and transfer of special repair funding to the Special Account for Capital Outlay.

Table 3
State Hospitals
Programs for the Developmentally Disabled
Proposed Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1984–85 expenditures (Budget Act)	$353,043	$361,079
Baseline adjustments, 1984–85:		
1. 1984–85 salary and benefit increases	30,182	30,274
2. Elimination of vacant positions	–155	–155
3. Other increases and decreases	–32	–456
1984–85 expenditures (revised)	$383,038	$390,742
Baseline adjustments, 1985–86:		
1. Full-year cost of 1984–85 salary and benefit increases	$2,702	$2,725
2. Merit salary adjustments	400	400
3. Transfer of accounting functions	–679	–679
4. Return of county-funded alcohol program at Camarillo to county	—	–1,459
5. Elimination of brain wave testing project	–114	–114
6. Other increases and decreases	80	80
Subtotals	$2,389	$953

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

Caseload and cost adjustments:		
1. Full-year effect of 1984-85 population decrease	−$3,763	−$3,763
2. 1985-86 population decrease:		
a. Treatment staff	−3,577	−3,577
b. Support staff	−1,007	−1,007
3. Workers' compensation rate increases	946	946
4. Five percent inflation adjustment for operating expenses	2,040	2,040
Subtotals	−$4,196	−$4,196
Program change proposals:		
1. Reductions in administrative positions	−$315	−$315
2. Quick-chill food preparation system	−422	−422
3. Funding for additional holiday	432	432
4. Reduced overhead cost, Stockton State Hospital	−1,103	−1,103
5. Unit dose pharmacy system	−485	−485
6. Savings from laundry contract with Prison Industries Authority	−138	−138
7. Augmentation of equipment budget	2,542	2,542
8. Augmentation of special repairs funds	1,237	1,237
9. Transfer of special repair funding to SAFCO	−3,144	—
Cost-of-living adjustment on education funds	175	175
1985-86 expenditures (proposed)	$378,845	$388,258
Change from 1984-85 (revised):		
Amount	−$4,193	−$2,484
Percent	−1.1%	0.6%

Client Characteristics

Developmentally disabled clients in state hospitals suffer from multiple disabilities. Approximately 20 percent are medically fragile and must be kept in continuing medical care or infirmary units because of their medical problems. Another 10 percent are blind or deaf. A large part of the population is unable to walk, speak, or take care of basic daily needs without assistance from hospital staff. Table 4 summarizes the characteristics of developmentally disabled clients.

Table 4

Characteristics of Developmentally Disabled Clients In State Hospitals

RETARDATION LEVEL:	71% are profoundly retarded, 15% are severely retarded, 14% are mildly or moderately retarded
UNDERSTANDING:	48% do not understand spoken words, 33% understand a few words, 19% understand conversation
DRESSING:	61% must be dressed, 26% dress with help, 13% dress independently
WALKING:	33% are in wheelchairs or beds, 8% walk with assistive devices, 59% can walk
TALKING:	73% do not talk, 16% say a few words, 11% can speak
EATING:	22% must be fed, 42% need help, 36% can feed themselves
TOILETING:	49% need diapers, 32% need help toileting, 19% are independent
SELF-INJURY:	32% frequently hurt themselves, 17% sometimes hurt themselves, 51% seldom or never hurt themselves
VIOLENCE:	11% are frequently violent, 28% are often violent, 14% are seldom violent, 47% are never violent
PROPERTY DESTRUCTION:	28% frequently destroy property, 11% often destroy property, 10% seldom destroy property, 51% never destroy property

Cost Per Client

Table 5 displays the cost per client at each hospital for treatment staff, support staff, and operating expenses. Variations in treatment staff cost per client are attributable primarily to the client mix at each hospital. Hospitals with more difficult-to-care-for clients receive larger staff allocations. Variations in treatment staff cost range in the current year from a low of $28,426 per client at Fairview to a high of $40,962 at Napa, where there is a high percentage of autistic clients in the caseload.

Table 5

State Hospital Cost Per Client
Programs for the Developmentally Disabled
1983–84 through 1985–86

	Treatment Staff	*Support Staff*	*Operating Expenses*	*Total*
Agnews				
1983–84	$25,203	$13,223	$6,670	$45,096
1984–85	30,331	15,913	7,288	53,532
1985–86	30,637	16,120	7,678	54,435
Camarillo				
1983–84	$25,907	$15,810	$7,295	$49,012
1984–85	31,394	18,869	8,172	58,435
1985–86	32,402	19,761	8,761	60,924
Fairview				
1983–84	$23,525	$14,803	$6,740	$45,068
1984–85	28,426	17,886	7,419	53,731
1985–86	29,194	19,444	8,356	56,994
Lanterman				
1983–84	$25,455	$13,018	$6,441	$44,914
1984–85	30,425	15,556	7,475	53,456
1985–86	31,105	16,086	9,063	56,255
Napa				
1983–84	$30,431	$13,746	$6,682	$50,859
1984–85	40,962	16,324	6,931	64,217
1985–86	46,913	19,252	8,459	74,624
Porterville				
1983–84	$24,805	$10,992	$4,955	$40,752
1984–85	28,848	12,786	6,218	47,852
1985–86	29,911	13,243	6,839	49,993
Sonoma				
1983–84	$25,443	$13,504	$6,657	$45,604
1984–85	30,094	15,971	8,187	54,252
1985–86	30,570	16,503	9,076	56,149
Stockton				
1983–84	$24,429	$20,262	$9,484	$54,175
1984–85	28,566	23,694	10,614	62,874
1985–86	29,463	21,121	12,066	62,650

Support staff costs per client in the current year vary from a low of $12,786 per client at Porterville to a high of $23,694 at Stockton. The costs vary for many reasons, including the number of support positions allocated to hospitals in past years. Although the department is attempting to reallocate support staff among hospitals on the basis of workload standards, many historical variations remain. Size of the facility is another important factor explaining variations in support staff among the hospitals. Facilities with small populations, such as Stockton, are unable to base the size of the support workforce entirely on the number of clients. Another

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

determinant of support staff size that is not related to population is the number of acres to be maintained. The kinds of employee classifications used at each hospital and the percentage of the workforce at the maximum step in each classification are other variables that affect cost per client.

Operating expenses in the current year vary from a low of $6,218 per client at Porterville to a high of $10,614 at Stockton. Operating expenses vary with the size and efficiency of the physical plant. Large, older hospitals with inefficient equipment and small populations have high operating expenses per client.

Staffing Adjustments Related to Hospital Population

We recommend that the department explain to the fiscal subcommittees the reason that no level-of-disability staffing adjustment is proposed for 1985–86. We withhold recommendation on population-driven staffing reductions until additional data become available for review.

The budget proposes to eliminate 436 state hospital positions by June 30, 1986, in order to reflect projected state hospital population decreases. The position reductions result in savings of $6,657,000 in 1985–86 and full-year savings of $12,167,000. These savings are divided between the Departments of Developmental Services and Mental Health. The budget proposes to retain $1,521,000 of the 1985–86 savings in the state hospital budget. These funds would be transferred to regional centers for expansion of local facilities if the populations decline as projected. The funds would be used by the state hospitals if populations do not decline as projected.

The department projects that the number of developmentally disabled persons residing in state hospitals will decline to 6,965 by June 30, 1985, and to 6,585 by June 30, 1986. This is a reduction of 430 clients in 1984–85 and 380 clients in 1985–86. The *average* number of clients in 1985–86 will be 6,859, which is 323, or 4.5 percent, below the average for 1984–85. Table 6 shows the average developmentally disabled population, by hospital, since 1981–82.

Table 6
State Hospitals
Programs for the Developmentally Disabled
Average Population
1981–82 through 1985–86

	Actual 1981–82	*Actual 1982–83*	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*	*Change 1984–85 to 1985–86* Number	Percent
Agnews	1,031	1,047	1,059	1,053	1,058	5	0.5%
Camarillo	594	577	579	559	552	–7	–1.2
Fairview	1,274	1,183	1,127	1,072	993	–79	–7.3
Lanterman	1,280	1,211	1,185	1,148	1,064	–84	–7.3
Napa	376	350	311	262	218	–44	–16.8
Patton	69	—	—	—	—	—	—
Porterville	1,485	1,419	1,349	1,287	1,230	–57	–4.4
Sonoma	1,408	1,321	1,285	1,262	1,213	–49	–3.9
Stockton	604	579	564	539	531	–8	–1.5
Totals	8,121	7,687	7,459	7,182	6,859	–323	–4.5%

The number of authorized treatment staff has for many years been based on established ratios of staff to clients. As the developmentally disabled population in state hospitals has declined, the number of authorized staff has been reduced. The annual staffing adjustments traditionally have contained two elements, a level-of-disability adjustment and a population change adjustment.

Level-of-Disability Adjustment. The level-of-disability adjustment recognizes that as the higher-functioning clients leave the hospital, the remaining population is more difficult to care for. The budget proposes no level-of-disability adjustment for 1985–86. If previous budget practice had been followed, approximately 84 of the 436 positions proposed for elimination would have been retained, at a 1985–86 cost of approximately $2.3 million.

The effect of not granting a level-of-disability adjustment is that the hospitals will be understaffed relative to current staffing formulas. We are not aware of any change in client care procedures that would make 1985–86 level-of-disability staffing adjustments unnecessary. For this reason, we recommend that the department explain to the fiscal subcommittees the reason that no level-of-disability staffing adjustment is proposed for 1985–86.

Population Change Adjustment. The staffing reduction of 436 positions is also divided into two elements. The first element relates to a "normal" population decline of 215 clients. The second element relates to a special project intended to place 165 additional hospital clients in community facilities. Table 7 shows the position reductions and savings related to each of the two population reduction components.

Table 7

Position Reductions and Savings Related to Reductions in Developmentally Disabled Population

	Position Reduction	*1985–86 Partial-Year Savings*	*Full-Year Savings*
A. Normal population reduction (215 clients)			
Treatment staff	222	$3,183,000	$6,367,000
Program administration staff	62	841,000	1,646,000
Food service workers	41	661,000	661,000
Food and clothing allowance	NA	451,000	451,000
B. Special population reduction (165 clients)			
Treatment staff	111	1,521,000	3,042,000
Totals	436	$6,657,000	$12,167,000

Our analysis has identified two problems with the proposed population-related staffing adjustment. First, it indicates that if present trends continue, the projected population reductions will not occur in either the current year or 1985–86. In 1983–84, the population declined by 125 persons, an average of 10 clients per month. In the first five months of 1984–85, population declined by 61 persons, an average of 12 clients per month. In order for the department to meet its June 1985 population goal, it will have to reduce population *by 53 clients per month* during the last seven months of 1984–85. To meet its June 1986 target, it will have to reduce population *by 32 clients per month* during 1985–86.

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The department states that regional center efforts to develop more community facilities will increase the rate of placements in the latter part of 1984–85. At the time this analysis was written, however, no data had been presented that would allow us to confirm that the 1984–85 or 1985–86 population targets, indeed, are achievable. We note, however, that if the department fails to meet its population targets, the budgeted staffing level will not be sufficient to meet current staffing standards. In fact, during December 1984, the hospitals had approximately 200 fewer treatment staff than current staffing standards specify.

We will be in a better position to assess the department's ability to meet hospital targets later in the spring. Consequently, we withhold recommendation on population-related staffing reductions until additional data become available for review.

The second problem with the population-related staffing reductions is that the department did not adjust the budgets for program administration, food service, or food and clothing to reflect savings resulting from the special project to place 165 additional clients in community facilities. If we are able to confirm that the special population reduction of 165 clients is achievable in 1985–86, we will recommend that the Legislature make appropriate adjustments in program administration, food service, and food and clothing budgets.

Laundry Service Proposal

We recommend a reduction of $261,000 in the amount budgeted for laundry services in order to reflect a more reasonable price for these services under the proposed contract with the Prison Industries Authority (PIA). (Reduce Item 4300-111-001 by $261,000.)

The budget proposes to phase out 105 laundry positions at Lanterman, Napa, and Sonoma State Hospitals in 1985–86 and initiate a laundry services contract with Prison Industries Authority (PIA), for a net reduction in the cost of these services amounting to $138,000.

State hospital laundries are in poor condition. The equipment is old, labor-intensive, and energy-inefficient. Many of the machines are so old that spare parts are not available. Many of the laundries require renovation to replace plumbing and electrical systems and to provide efficient workspace and air conditioning. Employees currently work in conditions of high heat and humidity.

Past studies have identified several options available to the Legislature for addressing the problems plaguing state hospital laundries. These options include:

- Contracting with private industrial laundries.
- Contracting with the Prison Industries Authority.
- Renovating the existing laundries.
- Consolidating state hospital laundries into four locations.

The department recommends that the option of contracting with PIA be selected because (1) it would result in lower costs, (2) it would put prison inmates to work, in keeping with legislative mandates, (3) it can avoid the need for major capital outlay expenditures at the state hospitals, and (4) all affected hospital laundry workers can be phased into other jobs without loss of income or benefits. The department also believes that a PIA contract would be the least costly long-term method of acquiring service

—particularly given the rate at which state hospital labor costs are increasing.

Our review indicates that a contract with the PIA appears to be the most cost-effective way of securing laundry services for the hospital and jobs for prison inmates. Nevertheless, the department's proposal raises a complex issue: how much should the hospitals pay for these services?

At the time this analysis was written, the department and PIA had not completed negotiations over the contract price or terms. The department's budget proposal, however, assumes that the PIA's price for laundry services will be 19 cents per pound. The department and PIA disagree about whether this price includes linen replacement, which has a cost of 3.5 cents per pound. The department has budgeted funds for linen replacement separately from contract costs, however; so for purposes of this analysis, we have assumed that this function is not included in the price.

Table 8 compares for 1985–86 (1) our estimates of costs to process laundry in the state hospitals, assuming consolidation into regional laundries (which we believe is the second most cost-effective option available to the Legislature for securing needed laundry services), (2) our estimates of what it would cost the PIA to process laundry, and (3) the prices for laundry services assumed in the department's budget. All of the estimates (1) exclude the cost of those laundry functions, such as laundry distribution, that the budget proposes be continued at the hospitals and (2) account for amortization of equipment purchases. We believe that the costs shown in Table 8 are probably less than what a private contractor would charge the state for these services.

Table 8
Costs of Laundry Services
1985–86

Options	*Cents Per Pound*
Process laundry in state hospitals	19.1 cents
Contract with PIA for laundry services:	
Estimated cost to PIA of providing laundry services	up to 11.6 cents
Cost to hospitals of contracting with PIA, as assumed in the budget	19.0 cents
PIA's mark-up (hospitals' cost divided by PIA's cost)	7.4 cents, or 64 percent

The Legislature has not established a pricing policy for PIA services provided to state agencies. It has merely directed the PIA to develop work opportunities for inmates, with the expectation that some enterprises will result in profits and some will result in losses. Furthermore, we know of no analytical basis for setting these prices. It seems reasonable, however, to keep these prices *above* what it costs the PIA to provide the service and *at or below* what it would cost the state agency to provide or obtain the service itself. In the case of hospital laundry services, this range extends from 11.6 cents per pound to 19.1 cents per pound. The PIA operates like a private business with respect to negotiating prices. Nevertheless, we believe that a profit margin of 64 percent or more is unreasonably high for prices charged to a state agency.

We believe a reasonable approach to setting PIA's price in this situation would be to set the price midway between the PIA's cost and the state hospitals' cost. Consequently, we recommend that the Legislature base the department's budget for contract laundry services on a price of 15.3 cents per pound. This amount would provide the PIA with $476,000 on an annual basis for developing new enterprises. PIA's percent markup would

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be 32 percent. This recommendation results in a reduction of $261,000 from the department's budget.

Equipment Augmentation

We recommend that the Legislature adopt supplemental report language requiring the department to report on the condition of the state hospitals' equipment inventory and its plans to address any equipment deficiencies identified in the report.

The budget proposes an augmentation of $3,276,000 to purchase equipment for developmentally disabled programs in 1985–86. The request would establish an annual equipment budget of $5,625,000, which is a 142 percent increase over the 1984–85 level. The department estimates that the proposed budget would permit the hospitals' $45 million equipment inventory to be replaced on an 8-year cycle. The current equipment budget allows replacement on a 19-year cycle.

The department states that for many years, the amount provided for hospital equipment has not been sufficient to permit timely replacement. Consequently, many items have become prone to breakdown, are unsafe, or are labor-intensive compared to tools that currently are available. To support its request for a significant budget augmentation, the department submitted (1) a 70-page document that proposes life-expectancy standards for equipment items, lists current replacement costs, and suggests formulas for determining how many of each item is required and (2) a 26-page list of equipment items, totaling $21.9 million, that have exceeded life-expectancy standards. The two lists contain a wide range of items, including vehicles, laboratory equipment, furniture, tools, medical equipment, office equipment, grounds and building maintenance equipment, and so on.

The department indicates that its major priorities in purchasing equipment will be to provide (1) homelike furnishings for client living areas, (2) educational, vocational, and recreational equipment, and (3) tools and equipment to maximize employee productivity. The department, however, has not provided a list of proposed 1985–86 equipment purchases.

The department's lists provide a basic framework for deciding how much is needed for hospital equipment. By itself, however, this framework is incomplete. Additional information is needed to document that the eight hospitals need $45 million in equipment and that on the average, the equipment items should be replaced every eight years. To date, no documentation supporting the proposed equipment standards or the suggested life expectancies has been provided.

Moreover, our review indicates that these lists bear little relationship to the actual equipment purchases that the department proposes to make in the budget year. This is because the department has not assessed the actual condition of each item in the inventory, classified the items according to priority for replacement, or identified the specific items it would acquire with the requested funds.

In order for the Legislature to evaluate the department's equipment funding requests, it needs better information on the real condition of the equipment inventory, the specific items proposed to be purchased, the reasons for selecting these items, and the systems used to identify equipment needs and assign priorities to these needs. To secure this information, we recommend that the Legislature adopt the following supplemental report language requiring the department to submit a report on state hospital equipment in conjunction with its 1986–87 budget submission:

"The Department of Developmental Services shall submit, in conjunction with its 1986–87 budget submission, a report on the management of state hospital equipment inventories. The reports shall (1) define and discuss major areas of state hospital equipment need, (2) list the department's priorities and timetables for addressing major equipment needs, (3) identify and discuss equipment purchases that would improve employee efficiency and permit reduced labor costs, (4) evaluate the need for and the costs of an inventory control system that is capable of assessing the condition of individual inventory items for purposes of determining replacement urgency and priority, (5) show how equipment funds will be allocated in 1985–86 and 1986–87 to address major priority equipment needs, emergency replacement needs, and ongoing routine replacement needs, and (6) recommend to the Legislature an ongoing system for reporting on the condition of the hospitals' equipment inventory and areas of major equipment deficiency."

Although we cannot document the need for each item of equipment that the department intends to purchase in 1985–86, our site visits to state hospitals confirm that much of the existing equipment is very old and in poor condition. Clearly, the hospitals need many millions of dollars in replacement equipment. On this basis, we recommend approval of the funding request.

The Unit Dose System

We recommend that the Legislature adopt supplemental report language requiring the Department of Developmental Services to report on the implementation of the proposed unit dose pharmacy system. We further recommend that the Department of Mental Health report to the Legislature by April 15, 1985, on the feasibility of implementing a unit dose system in 1985–86 at Atascadero and Patton State Hospitals.

The budget proposes the phased reduction of 123.5 psychiatric technician positions and the addition of 74 pharmacy positions, for a net savings of 49.5 positions and $114,000 in 1985–86. These changes would allow the introduction of the "unit dose system," which is a more effective system for dispensing and controlling drugs in hospitals.

Under current procedures, psychiatric technicians dispense drugs from large bottles of pills or liquids, or from containers that are individually labeled. The department estimates that approximately 20 percent of prescribed doses are dispensed incorrectly under this system. Thus, too often patients receive the wrong dosage, receive the wrong drug, receive the correct drug at the wrong time, or receive no medication at all. In addition to being error-prone, the present dispensing system is labor-intensive, because ward staff spend a large amount of time counting out or measuring medications and maintaining medication cards and control sheets.

Under the unit dose system, dose measurement and most record-keeping takes place in the pharmacy, using packaging equipment. The drugs are delivered to the wards in special dispensing carts. The system reduces the medication error rate to 5 percent or less, reduces spoilage and pilferage, and reduces net staff cost. The system permits significant reductions in ward positions because ward staff do not perform most drug-dispensing and record-keeping functions. The savings in ward staff costs are offset in

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part by increases in pharmacy staff costs. The use of packaging equipment, however, will enable fewer pharmacy staff to perform the functions currently performed by ward staff.

We recommend approval of the funding requested for the proposed unit dose system because our analysis indicates that the proposal will reduce staff costs by at least $650,000, on an annual basis, and improve the quality of pharmacy service. The $702,000 cost of the dispensing carts and packaging equipment will be recovered in approximately 13 months.

We further recommend that the Legislature adopt supplemental report language requiring the department to report on the implementation of the unit dose system. The purpose of the report would be to identify the actual costs and savings associated with the unit dose system, and thereby enable the Legislature to determine whether additional changes should be made in pharmacy operations. Our recommended language is as follows:

> "The department shall, by January 1, 1986, submit to the Legislature an interim status report on the implementation of the unit dose system administered by state hospital pharmacies. The status report shall describe the implementation schedule, discuss implementation problems, and compare anticipated budgeted staffing to staffing actually required. By June 30, 1986, the department shall submit to the Legislature's fiscal committees a final report on the implementation of the unit dose system. The report shall describe the operation of the unit dose system, evaluate by hospital the costs and savings resulting from the system, contain revised staffing standards for pharmacy operations, evaluate the effectiveness and problems of centralized packaging, and make recommendations for improving the efficiency and effectiveness of pharmacy operations."

We further recommend that by April 15, 1985, the Department of Mental Health submit to the Legislature an evaluation of the feasibility of, as well as the costs and savings that would result from, implementing a unit dose pharmacy system at Atascadero and Patton State Hospitals in 1985–86. (The third hospital operated by the department, Metropolitan, already has a unit dose system.) Based on the model used by the Department of Developmental Services, we estimate that the initial equipment investment required would be $124,000. In 1985–86, net salary and benefit savings would be approximately $22,000, based on the elimination of 24.5 psychiatric technician positions and the addition of 7 pharmacist and 9 pharmacy assistant positions. On a full-year basis, net salary and benefit savings would be approximately $133,000.

Reduction in Central Program Services

We recommend approval.

The budget proposes elimination of nine assistant chiefs of central program services, for a savings of $315,000 in 1985–86.

State hospitals each have two or more assistant chiefs of central program services. One of the assistant chiefs in each office has been responsible for organizing and coordinating clients' recreational activities, outings, holidays and special events, and sheltered workshop activities. The department indicates that (1) many of the responsibilities of the assistant chiefs have gradually been reassigned to rehabilitation therapists and other treatment staff and (2) as a result, the remaining workload can be absorbed principally by the chief of program services at each hospital. We have no basis to disagree with the department's workload assessments. Consequently, we recommend approval of the proposed staffing reduction.

Quick-Chill Food System

We recommend approval.

The budget proposes the phase-out of 55 cook and food service worker positions at six hospitals operated by the Department of Developmental Services. The position reductions are made possible by the purchase of equipment that permits staff to prepare food for the entire week on a five-day rather than a seven-day-per-week cooking schedule. After being cooked, the food is rapidly chilled (not frozen) and held at a temperature of 37°F until served, up to five days later. When served, the food is reheated in portable cabinets.

This proposal is cost-beneficial and will result in improved quality of food service. The food-chilling equipment and the reheating cabinets will be purchased in the current year, at a cost of $2 million. In 12 months, the cost of the equipment will be fully recovered in the form of reduced salaries and benefits. Thereafter, annual salary and benefit savings will be at least $995,000. For these reasons, we recommend approval of the proposal.

Stockton State Hospital Support Costs

We recommend approval.

The budget proposes to eliminate 80.5 positions at Stockton State Hospital, for a savings of $1,103,000 in 1985–86. This reduction is proposed in response to the *Supplemental Report of the 1984 Budget Act,* which directed the Department of Developmental Services to evaluate the feasibility of reducing Stockton State Hospital's support costs per client in line with the costs at other state hospitals and, if that is not feasible, to evaluate the option of closing the facility.

The department's report was submitted in January 1985. In the report, the department maintains that despite a thorough evaluation of support staff needs, it was unable to reduce support costs to the average of the other hospitals or even to the level of the next most costly facility. Table 9 shows estimated costs per client for support personnel in the eight hospitals serving developmentally disabled clients for 1985–86. Stockton State Hospital's cost per client is $21,121, which is $4,246, or 25 percent, above the average of the other facilities.

In spite of the significant efforts made by the department to reduce support costs at Stockton State Hospital, the costs remain high. In addition, based upon the department's most recent hospital population projections, our analysis indicates that there will be approximately 734 vacant beds in the developmentally disabled (DD) hospital system by the end of the budget year. Given that the current population of Stockton State Hospital is 562 clients, sufficient beds will be available in the DD hospital system to accommodate these clients within a five-year period. Consequently, we have recommended under Item 4300-301-036 that the department prepare a five-year plan to phase out Stockton State Hospital.

Based on our review of the department's report, we recommend approval of the proposed position reductions.

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Table 9
Hospitals For Developmentally Disabled
Support Staff Cost Per Client
1985–86

Porterville	$13,243
Lanterman	16,086
Agnews	16,120
Sonoma	16,503
Napa	17,325[a]
Fairview	19,444
Camarillo	19,785[a]
Average	16,875
Stockton	21,121

[a] Average cost for all developmentally and mentally disabled clients in the hospital.

Future Use of State Hospitals by Developmentally Disabled Clients

We recommend that the Legislature adopt supplemental report language requiring the department to submit a report by November 1, 1985, that examines issues related to the utilization of state hospitals.

The per-client costs of operating state hospital programs for developmentally disabled clients will continue to escalate rapidly in the years ahead if labor costs continue to increase as they have in the last two years and if populations continue to decline.

Trends in Operating Costs and Population. Table 10 shows the increase in operating cost per client at state hospitals for the developmentally disabled, from 1978–79 through 1984–85.

Table 10
State Hospital Programs for the Developmentally Disabled
Cost Per Client
1978–79 through 1984–85

	Cost per Client	Annual Increases in Costs Per Client	
		Amount	*Percent*
1978–79	$26,316	—	—
1979–80	32,728	$6,412	24%
1980–81	38,764	6,036	18
1981–82	40,337	1,537	4
1982–83	41,733	1,396	4
1983–84	46,073	4,072	10
1984–85	54,406	8,333	18

Between 1978–79 and 1984–85, the average cost per client in these hospitals increased from $26,316 to $54,406, an increase of 106 percent. Between 1983–84 and 1984–85, costs per client are expected to increase from $46,073 to $54,406, an increase of $8,333 per client, or 18 percent. The 1984–85 increase in cost per client is due principally to salary and benefit cost-of-living increases that added $4,595 to the average cost per client. Operating expenses increased by $1,306 per client. The remainder of the increase in cost per client ($2,432 per client) during 1984–85 results primarily from

(a) changes in client mix that require enriched staffing ratios and (b) population reductions that increase the amount of "fixed" operating costs attributable to each client.

Table 11 shows the decline in developmentally disabled population in the state hospitals that took place between 1978–79 through 1983–84. On the average, population decreased by 330 persons each year.

Table 11
State Hospital Programs for the Developmentally Disabled
Population Trends
1978–79 through 1983–84

	Year-End Population	*Net Population Decrease*
1978–79	8,955	419
1979–80	8,700	255
1980–81	8,413	287
1981–82	7,877	536
1982–83	7,520	357
1983–84	7,395	125

State Hospitals in 10 Years. If the rate of population decrease continues at an average of 330 clients per year, the population will decline to approximately 4,000 clients within 10 years, leaving 3,500 recently remodeled beds vacant. If seven hospitals continue in operation, excluding Stockton, the average population per hospital will fall from 900 to 500 clients. The fixed cost per client for support staff and operating expenses will increase substantially.

The combination of population and cost trends raises major questions about (1) how many state hospital beds will be needed to serve developmentally disabled clients, (2) how these beds should be distributed among the hospitals to achieve the maximum operating efficiency, (3) whether more of the existing hospitals should be closed as the population declines and, if so, which ones, and (4) whether the major remodeling projects proposed by the Department of Mental Health make sense if there will be remodeled beds available for occupancy in facilities that now serve developmentally disabled clients.

To secure the information needed to address these issues, we recommend that the Legislature adopt the following supplemental report language requiring the department to address these issues:

"By November 1, 1985, the department shall submit a report to the Legislature that addresses the following questions:

"1. Is there a core population of developmentally disabled clients who should be served in state hospitals or state-owned and -operated facilities for the next 10 years or longer? If so, how many of these clients are there and what are their characteristics?

"2. What types of clients now in state hospitals should be placed in community facilities, and how many can be placed? What kind of community facilities are required to serve that clientele? How long would it take to develop the kind and number of community beds needed to serve that population? What are the estimated costs, by facility type, to develop needed community beds? What are the estimated annual state and federal costs and cost-per-client of serving these categories of state hospital residents in the community programs? What annual state hospital savings, in state and federal

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funds, would be realized by placing that clientele in community programs?

"3. How many vacant remodeled state hospital beds will become available in the next five years in each of eight hospitals operated by the Department of Developmental Services? How many vacant beds in each hospital could be used to serve mentally disabled clients? How much would use of these vacant beds reduce the cost of remodeling state hospital space for mentally disabled clients?

"4. As the number of developmentally disabled clients in state hospitals declines, should hospitals be closed to avoid operating many hospitals with small populations and high overhead and operating costs? What criteria should be used to select hospitals for closure? How long would it take to transfer patients to other hospitals and community facilities and close a hospital? What should be done with the proceeds of the sale of state hospital land, buildings, and equipment?

"5. If the state were to close more hospitals, should the department build and operate alternative facilities for some clients in order to insure continuation of high-quality service and reduce the impact of closure on employees? What kind of alternative facilities would be constructed? What would be their size and number? How much would they cost to build? How much would they cost to operate? How would their cost per client compare to the cost per client in the state hospital system? How would the availability of federal matching funds be affected?"

B. PROGRAMS FOR THE MENTALLY DISABLED

The Department of Mental Health operates three state hospitals—Atascadero, Metropolitan, and Patton. In addition, it manages programs for the mentally disabled at two other state hospitals—Napa and Camarillo—which are operated by the Department of Developmental Services.

The budget proposes state hospital expenditures of $273,875,000 for mentally disabled clients in 1985–86. This is an increase of $5,442,000, or 2 percent, above estimated current-year expenditures. The budget proposes an appropriation of $252,876,000 from the General Fund for these programs, which is an increase of $4,742,000, or 1.9 percent, above estimated current-year expenditures.

Table 12
State Hospitals
Programs for the Mentally Disabled
Expenditures, Funding Sources, Population, Positions, and Cost Per Client
1983–84 through 1985–86

	Actual 1983–84	*Estimated 1984–85*	*Proposed 1985–86*	*Change Amount*	*Change Percent*
A. Expenditures and funding sources (dollars in thousands)					
County clients	$128,459	$153,760	$155,546	$1,786	1.2%
Judicially committed clients	82,285	94,374	98,045	3,671	3.9
Other clients [a]	12,868	20,299	20,284	−15	−0.1
Totals	$223,612	$268,433	$273,875	$5,442	2.0%

General Fund	*$210,744*	*$248,134*	*$252,876*	*$4,742*	*1.9%*
Reimbursements	*12,868*	*20,299*	*20,284*	*−15*	*−0.1*
SAFCO	—	—	*715*	*715*	*NA*
B. Average population					
County clients	2,576	2,557	2,144	−413	−16.2%
Judicially committed clients	2,062	1,856	1,776	−80	−4.3
Other clients [a]	186	404	519	115	28.5
Totals	4,824	4,817	4,439	21	0.4%
C. Authorized positions					
Department of Mental Health	3,695	4,559	4,411	−148	−3.2%
Department of Developmental Services	2,686	3,099	2,681	−418	−13.5
Totals	6,381	7,658	7,092	−566	−7.4%
D. Cost per client					
County clients	$49,868	$60,133	$72,549	$1,033	1.7%
Judicially committed clients	39,905	50,848	55,205	4,357	8.6
Other clients [a]	69,183	50,245	39,083	−11,162	−22.2
Totals	$46,354	$55,726	$56,609	$883	1.6%

[a] Includes clients from the Department of Corrections, Department of the Youth Authority, and county alcohol and drug programs.

Client Characteristics

State hospitals serve three categories of clients: county clients, judicially committed clients, and clients of other institutions.

County clients may voluntarily consent to treatment or may be detained involuntarily for treatment for specified periods of time under the provisions of the Lanterman-Petris-Short Act (LPS).

Judicially committed clients include persons who are legally categorized as (1) incompetent to stand trial, (2) not guilty of a crime by reason of insanity, or (3) mentally disordered sex offenders.

Clients of other institutions include mentally disabled clients of the Departments of Corrections and the Youth Authority who are transferred to state hospitals to receive medication and other treatment. In addition, Metropolitan State Hospital operates a county-funded program for drug abusers.

Table 13 shows the average 1983–84 daily population for the various categories of clients, the annual number of discharges, and the average length of stay.

Budget Changes

Table 14 shows the changes to the current-year budget proposed for programs at state hospitals serving the mentally disabled, in 1985–86. The budget proposes a net increase of $4.7 million from estimated current-year General Fund expenditures. The major increases proposed for 1985–86 would fund the full-year cost of more than 200 treatment positions added in 1984–85, a proposal to add an additional 209 positions in 1985–86, a 5 percent increase in operating costs, the full-year costs of 1984–85 salary and benefit increases, and merit and salary adjustments. The major decreases that affect 1985–86 expenditures result from population reductions, a proposal to reduce the number of state hospital beds by encouraging counties to build replacement beds in their local communities, and transfer of special repair funding to the Special Account for Capital Outlay.

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Table 13
State Hospitals
Programs for the Mentally Disabled
Average Population, Number of Discharges, and Average Length of Stay
By Legal Category
1983–84

Legal Category	*Average Daily Population*	*Number of Discharges*	*Average Length of Stay*
1. County clients			
a. Involuntary			
72-hour observation	32	437	4 days
14-day treatment	121	2,425	9 days
180-day treatment	30	35	134 days
Temporary conservatorship	141	603	41 days
Conservatorship	1,806	1,388	259 days
b. Voluntary	385	2,353	65 days
2. Judicially committed clients			
a. Voluntary juvenile court wards	55	72	196 days
b. Not guilty by reason of insanity	959	166	
Homicide		21	7.7 years
Robbery		13	2.7 years
Assault		74	2.4 years
Burglary		9	1.7 years
Rape, child molestation, other sex offenses		6	3.5 years
Arson		16	2.7 years
Other		27	NA
c. Mentally disordered sex offender	537	230	2.6 years
d. Incompetent to stand trial	420	513	179 days
3. Other clients			
a. Contract drug program	86	1,337	24 days
b. Contract alcohol program	32	221	55 days
c. Department of Corrections	119	92	187 days
d. Youth Authority clients	60	60	395 days
e. Other	57	242	NA

Table 14
State Hospitals
Programs for the Mentally Disabled
Proposed Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1984–85 expenditures (Budget Act)	$229,678	$250,078
Baseline adjustments, 1984–85:		
1. 1984–85 salary and benefit increases	20,176	20,176
2. Elimination of limited-term positions	−22	−22
3. Adjustment to salary schedule	−1,698	−1,698
4. Other	—	−101
1984–85 expenditures (revised)	$248,134	$268,433
Baseline adjustments, 1985–86:		
1. Full-year cost of 1984–85 salary and benefit increases	$2,194	$2,194

2. Reduce one-time furniture and equipment costs	−1,218	−1,218
3. Full-year effect of 1984–85 model treatment program staffing increase	3,000	3,000
4. Full-year effect of 1984–85 Department of Corrections population increase	—	1,840
5. Merit salary adjustment	1,119	1,119
6. Fees to Department of Personnel Administration	75	75
7. Adjustment to salary schedule	1,107	1,107
8. Reimbursement adjustment	350	91
Caseload and cost adjustments:		
1. Hospital population reduction	−3,102	−3,102
2. Five percent inflation adjustment in operating expenses	1,453	1,453
Program change proposals:		
1. Transfer of drug program to Los Angeles County	—	−1,596
2. Patton security improvements	104	104
3. Model treatment programs—phase II	4,825	4,825
4. State hospital bed reduction	−5,045	−5,045
5. Program change proposals in the Department of Developmental Services budget	595	595
6. Transfer of special repair funding to SAFCO	−715	—
1985–86 expenditures (proposed)	$252,876	$273,875
Change from 1984–85 (revised)		
Amount	$4,742	$5,442
Percent	1.9%	2.0%

Cost Per Client

Table 15 displays the cost per client at each hospital for treatment staff, support staff, and operating expenses. Variations in treatment staff cost per client are attributable primarily to the client mix at each hospital. Hospitals with more acute clients and children and adolescent programs

Table 15

State Hospital Cost Per Client
Programs for the Mentally Disabled
1983–84 through 1985–86

	Treatment Staff	*Support Staff*	*Operating Expenses*	*Totals*
Atascadero				
1983–84	$21,320	$12,757	$5,770	$39,847
1984–85	28,336	16,952	5,956	51,244
1985–86	28,822	16,613	6,019	51,454
Camarillo				
1983–84	$33,136	$15,809	$7,296	$56,241
1984–85	38,389	18,870	8,171	65,430
1985–86	39,973	19,808	8,746	68,527
Metropolitan				
1983–84	$26,273	$19,909	$8,324	$54,506
1984–85	30,409	23,053	7,402	60,864
1985–86	29,477	23,500	7,530	60,507
Napa				
1983–84	$27,512	$13,743	$6,680	$47,935
1984–85	31,774	16,323	6,931	55,028
1985–86	32,542	16,985	7,572	57,099
Patton				
1983–84	$21,130	$13,393	$5,639	$40,162
1984–85	26,179	16,612	6,264	49,055
1985–86	28,682	16,668	6,612	51,962

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receive larger staff allocations. Variations in treatment staff cost range in the current year from a low of $26,179 per client at Patton to a high of $38,389 at Camarillo, where there is a high percentage of children and adolescents in the caseload.

Support staff costs per client in the current year vary from a low of $16,612 per client at Patton to a high of $23,053 at Metropolitan. The costs vary for many reasons, including the number of support positions allocated to hospitals in past years, the kinds of employee classifications used at each hospital and the percentage of the workforce at the maximum step in each classification.

Operating expenses in the current year vary from a low of $5,956 per client at Atascadero to a high of $8,171 at Camarillo. Operating expenses vary with the size and efficiency of the physical plant. Large, older hospitals with inefficient equipment have high operating expenses per client.

Los Angeles County Drug Program

We recommend approval.

The budget proposes to transfer responsibility for the treatment portion of the Metropolitan State Hospital drug program to Los Angeles County. This transfer would permit a reduction of 61.5 positions and $1,596,000 in reimbursements during 1985–86. Currently, Metropolitan State Hospital operates a drug program for Los Angeles County on a contract basis. Under the budget proposal, Metropolitan State Hospital would continue to furnish space, food, pharmacy, lab, X-ray, and other support services to the county. The county would pay $2,480,000 for these services in 1985–86.

Mental Health State Hospital Staffing Initiative

We withhold recommendation on 209 proposed new positions, pending further review of the proposal. We recommend that the department address specific questions in its report on state hospital treatment programs due April 1, 1985.

The budget proposes to add 209 new state hospital treatment positions at a cost of $4,825,000 in 1985–86 and $5,459,000 in 1986–87. The 209 new positions constitute the second phase of the Governor's three-phase program to augment staffing for state hospital programs serving the mentally disabled. The staffing augmentation, when completed, will add a total of more than 600 positions to hospital-based programs for the mentally disabled, at an annual cost of approximately $16.4 million.

During our review of the first phase of the program, one year ago, we concluded that (1) planning for specific treatment activities at the hospital level was inadequate and (2) there was no system to monitor whether new staff would be used effectively. The Legislature subsequently adopted Budget Act language that required the department to focus the new positions added during Phase 1 on those hospital programs that had developed model treatment proposals. The Legislature also adopted language in the *Supplemental Report of the 1984 Budget Act* requiring the department to report on the status of scheduled treatment of patients in state hospitals.

Department's Study of Treatment Programming. The department submitted the required report in December 1984. The report presents data on the amount of "planned scheduled treatment" provided at each hospital, comments on the reasons for differences between the hospitals, and makes recommendations on systems for monitoring the amount of treatment actually delivered. "Planned scheduled treatment" includes individual and group therapy, rehabilitation, education and recreation activities, and patient (or ward) government, if these activities are directed towards specific treatment goals. An activity is not considered "planned scheduled treatment" if (1) there is no record that the client attended the activity, (2) it is intended for all clients on a ward, or (3) it represents staff intervention intended to control unacceptable spontaneous client behavior.

Table 16 shows the amount of planned scheduled treatment clients in various program categories receive during an average week. The table shows that clients on psychiatric rehabilitation wards, who comprise approximately 60 percent of the hospital population, receive from 8 to 12 hours of treatment activities per week on the average. This is one-third to one-half of the amount recommended by the Title 22 licensing standards. Clients on acute psychiatric wards, who comprise approximately 27 percent of the population, receive from 7 to 9 hours of treatment activity per week. This is approximately one-third of the amount recommended by the Title 22 licensing standards.

Table 16

Comparison of Actual Planned Scheduled Treatment to Title 22 Standards February 1984

	Distribution of Caseload	Treatment Hours Per Client Per Week: Actual	Treatment Hours Per Client Per Week: Standard	Percent of Standard
A. County LPS clients				
1. Acute	18%	9.2	29.5	31%
2. Psychiatric rehabilitation	31	12.1	24.0	50
3. Adolescent	3	47.4	48.5	98
4. Children	3	31.2	57.0	55
5. Geropsychiatric	5	5.1	—	
B. Penal code clients				
1. Acute	9	6.9	23.0	30%
2. Psychiatric rehabilitation	29	8.0	24.0	30
C. All other	2			

Table 17 shows the variations between hospitals in the amount of planned scheduled treatment delivered to patients. For acute psychiatric rehabilitation and geropsychiatric programs, the number of treatment hours delivered is significantly higher at Camarillo State Hospital than it is at the other locations. The report attributes the difference to Camarillo's policies related to organizing and delivering treatment programming, not to differences in staff complements. The report notes that programs which have a consistent treatment philosophy and design provide more programming than those where treatment commitment is absent. The report emphasizes that attention by hospital managers to the execution of a treatment program, as designed, also substantially influences the amount of treatment actually provided.

The department's report found that (1) improving the amount of treatment programming will require more efficient use of existing staff because proposed staffing augmentations, by themselves, are not sufficient to meet Title 22 standards, (2) more treatment is provided when hospital management closely monitors staff and client adherence to treatment schedules, and (3) only rehabilitation therapists maintained adequate attendance records of treatment activities.

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

Table 17

Comparison of Treatment Hours Delivered Per Client Per Week, by Hospital and Program

	Acute Programs	*Psychiatric Rehabilitation Programs*	*Gero-psychiatric Programs*	*Programs for Adolescents*	*Programs for Children*
Camarillo	15.0	24.3	7.1	38.2	29.9
Metropolitan	6.7	7.7	3.3		
Napa	8.8	5.6		52.3	33.1
Patton	1.1	7.7 [a]			
Atascadero	7.9	8.3			

[a] 12.2 hours for non-penal code patients at Patton.

The department's report on state hospital treatment programs recommends that (1) all hospital programs prepare treatment program statements that meet Title 22 requirements and the requirements of the 1984 Budget Act, (2) the department develop a manual data system for monitoring the delivery of planned scheduled treatment and later develop an automated monitoring system, (3) the department require documentation of attendance by clients and staff at planned treatment activities, and (4) the department develop a system for evaluating the quality, as well as the frequency, of planned treatment activities.

Implementation Information Needed. The recommendations in the department's report address the management problems that we identified when we evaluated the department's original Phase 1 staffing proposal. The report's recommendations, if properly implemented, could significantly contribute to the effective use of the additional staff. Before the Legislature can properly evaluate the second phase of the department's proposed staffing augmentation, however, it needs answers to the following questions related to implementation of the report's recommendations:

1. Which hospitals have made the most progress in preparing written treatment program statements that meet the requirements of Title 22 and the Budget Act? Will program statements that have not met the department's standards for quality be allocated new positions in 1985–86 or 1986–87?

2. How will the department evaluate the quality of state hospital treatment programs? What role will independent outside reviewers play in the evaluation process?

3. When will the manual data collection system be operational? What data elements will it collect? How will it compare the actual delivery of planned scheduled treatment with the hourly treatment goals established for each program? How will the department assure that attendance at scheduled treatment sessions is recorded?

4. How does the department specifically propose to insure that program directors, clinical directors, and hospital directors actually implement treatment activity schedules? How will substandard performance be defined? What measures will the department take to correct substandard performance?

5. Will there be a feasibility study for an automated system for tracking delivery of planned scheduled treatment activities? If so, when will it be completed? Will the department evaluate the feasibility of using personal computers for this purpose?

We recommend that the department address these implementation questions as part of its report on state hospital treatment programs due to the Legislature by April 1, 1985.

Special Repairs

We recommend deletion of $486,000 in special repair projects that are premature at this time. (Reduce Item 4300-111-001 by $486,000.) We withhold recommendation on special repair projects for Camarillo State Hospital pending resolution of population-related issues.

The budget proposes a total of $3,859,000 for state hospital special repair projects in 1985–86. Of this amount, the Department of Developmental Services requests $3,144,000, which is $1,594,000, or 103 percent, more than the amount authorized in 1984–85, and the Department of Mental Health requests $715,000, which is $34,000, or 5 percent, more than what was authorized for 1984–85. The budget further proposes to transfer funding for special repair projects from the General Fund to the Special Account for Capital Outlay (SAFCO). The special repairs line item is used for replacement, repair, or special maintenance of physical plant items such as roofs, roads, and heating and air conditioning systems.

Over the past eight years the Department of Developmental Services spent approximately $151 million renovating patient living quarters in state hospitals. Renovations did not, however, include roofs, roads, water and sewer systems, offices, kitchens, or buildings not occupied by patients. The Department of Mental Health has undertaken a five-year, $130 million program to improve patient living quarters. Many of the Department of Mental Health's projects will include roofs. In general, however, repairs will focus on patient areas, not on the infrastructure needs of an entire hospital.

In April 1984 the Infrastructure Review Task Force report identified $73.1 million in specific special repair and capital outlay projects at state hospitals. Table 18 shows the types of projects identified in the report.

Table 18
Estimated State Hospital Renovation Needs
1985–86 to 1988–89
(dollars in millions)

Roofs	$8.9
Roads	6.7
Sewers	4.8
Heating/air conditioning	15.7
Heating systems	20.5
Painting (interior and exterior)	7.5
Kitchens	5.6
Electrical systems	3.4
Heating systems	20.5
Total	$73.1

Our review of the department's special repair proposals indicates that $3,373,000 of the amount requested has been adequately justified and should be approved. Two of the projects for which funding has been requested, however, should either be deferred or funded under another program. Furthermore, approval of special repair projects at Camarillo State Hospital should await further action by the Legislature.

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

PCB Transformers (Agnews). We recommend deletion of $320,000 budgeted to replace nonleaking PCB transformers at Agnews State Hospital because, under existing state policy, these transformers need not be replaced. The state criteria for transformer replacement are consistent with federal regulations on PCB use, storage, and disposal. In addition, the Department of General Services, Office of the State Architect, is responsible for management of the state's program to replace PCB transformers. When replacement of the transformer at Agnews is warranted, it will be funded through the Department of General Services budget.

Floor Covering (Camarillo). We also recommend deletion of $166,000 for vinyl floor covering at Camarillo State Hospital. Because the units in question are scheduled for fire and life safety renovation, replacement of the floors should be postponed until it can be accomplished in connection with this work.

Other Camarillo Projects. We withhold recommendation on all remaining special repair projects proposed for Camarillo State Hospital in 1985–86. These projects are as follows: (1) $82,000 to replace a swimming pool filtration system, (2) $496,000 to replace water distribution lines, and (3) $57,000 to repair a well. If the Legislature approves the Department of Mental Health's proposal to reduce the population at Camarillo by 399 clients, the viability of maintaining the facility will have to be reevaluated.

Mental Health Bed Buy-Out Proposal

We recommend that the Legislature reject the department's proposal to eliminate 399 state hospital beds because it would increase costs, with no identified increase in benefits, and is not adequately defined. Our recommendation results in a net reduction of $5,000,000 from the General Fund. (Reduce Item 4440-101-001 by $10,045,000 and augment Item 4440-121-001 by $5,045,000.) We further recommend adoption of supplemental report language requiring the department to report on the feasibility of making large reductions in the number of state hospital beds serving county clients.

The budget proposes the elimination of 399 state hospital beds currently used to serve mentally disabled clients. This would permit gradual elimination of 400.6 hospital positions and a savings of $5,045,000 in hospital budgets during 1985–86. Full-year savings from the elimination of the positions is estimated at $10.1 million. The budget proposes to transfer the 1985–86 savings of $5,045,000, plus an additional $5 million in new funds, to the local assistance item so that county mental health programs can develop 399 local program beds. The budget identifies the cost of the 399 local program beds at $10 million in 1985–86 and at $18.1 million annually thereafter. Thus, the net cost of the administration's proposal is $5 million in 1985–86 and $8.1 million annually thereafter.

The proposal would eliminate 193 of 315 existing beds for children and adolescents at Napa and Camarillo State Hospitals, and 206 psychiatric rehabilitation beds at Camarillo State Hospital. In its current-year budget, the department has funds to remodel 111 children's beds at Napa at a cost of $3.8 million. In the capital outlay sections of the 1985–86 budget, the department also has funds to remodel 72 children's beds at Camarillo at a cost of $6.6 million. Our analysis indicates that the budget's capital outlay request is inconsistent with its bed reduction proposal.

We conclude that the Department of Mental Health's bed reduction proposal does not warrant approval, for the following reasons:

- ***The proposal would increase costs.*** It would add $5 million to the

1985–86 budget and $8.1 million to each subsequent year's budget, *with no identified increase in benefits.* No evidence has been presented to indicate that the level of service would be increased or improved or that the additional expenditure would be justified.

- ***The proposal is not adequately defined.*** The proposal submitted by the department is laid out in a very general, conceptual document that contains no details on what kinds of local program beds would be developed, when they would be available, or which counties would receive the funds. The budget, however, is extremely precise when it comes to the implications of the proposal for state staffing levels. It assumes the state hospital staff would be eliminated by January 1986.
- ***The proposal apparently would spread overhead costs among even fewer beds.*** The budget does not propose a reduction in the cost of overhead support positions or operating expenses at Camarillo or Napa State Hospitals. Overhead cost for 399 beds is approximately $10.8 million on an annual basis. Any major state hospital bed reduction proposal should address the issue of how overhead costs can be reduced along with hospital treatment staff costs.
- ***The proposal would make the greatest reductions at Camarillo State Hospital, which the department found to have well-organized and well-administered planned scheduled treatment activity programs when compared to those at other hospitals.***

For these reasons, we recommend that the Legislature reject the proposal to eliminate 399 beds in 1985–86.

Nevertheless, we believe that a well-designed program to (1) develop new mental health facilities and (2) completely close one or more state hospitals could improve the quality of service to clients, avoid substantial state hospital capital outlay expenditures, and result in savings by substantially reducing the overhead costs per client currently associated with state hospital operations. To assist the Legislature achieve these goals, we recommend that supplemental report language be adopted requiring the Department of Mental Health to report on the feasibility of making large reductions in the number of state hospital beds serving county clients. The report should address the types of programs that should be developed and the costs of operating those programs, as well as the resulting savings to state hospitals. The following language is consistent with this recommendation:

The Department of Mental Health shall, by November 1, 1985, report "to the Legislature on the feasibility of making large reductions in state hospital beds serving county clients. The report shall address the following questions:

"1. What kinds of facilities and programs are needed to serve the kinds of county clients now in state hospitals? Describe the kinds of facilities and programs currently in existence that might serve as models.

"2. How much would it cost to staff and operate the various kinds of new facilities intended to accept state hospital clients? How would annual cost per client compare to the current annual cost of approximately $60,000 for county clients in state hospitals?

"3. Which state hospital or hospitals would be selected for closure? On what basis? How many beds would be phased out, and when?

"4. How much would it cost to lease or construct new facilities specifically designed to serve the clientele now in the state hospitals? How would these costs compare to anticipated state expenditures

DEPARTMENTS OF DEVELOPMENTAL SERVICES AND MENTAL HEALTH—STATE HOSPITALS—Continued

to maintain, remodel and upgrade the state hospitals?

"5. Who should own the new facilities—the state, counties, nonprofit groups, or private operators? What are the advantages and disadvantages of each option?

"6. Who should operate the new facilities—the state, counties, or private operators? What are the advantages and disadvantages of each option? What are the variations in cost?

"7. Should the state establish minimum staffing standards and minimum program expectations for the new facilities? What are the cost implications? Should the state have a system to monitor the quality of programming delivered in the alternative facilities?

"8. Under what circumstances could new facilities qualify for federal matching funds?"

Hospital Population Adjustments

We withhold recommendation on population-related staffing reductions until more data on population trends are available. We recommend a reduction of $1,818,000 in reimbursements to eliminate overbudgeting for Department of Corrections inmates served at Atascadero State Hospital.

The budget proposes to eliminate 243.5 state hospital positions by June 30, 1986, based on the projected population at the hospitals. The position reductions would produce savings of $3,102,000 in 1985–86 and savings of $6,204,000 annually thereafter.

The department projects that the average number of mentally disabled clients residing in state hospitals in 1985–86 will be 4,817, which is 21 clients, or 0.4 percent, above current-year estimates. Table 19 shows the average mentally disabled population, by hospital, since 1981–82.

Table 19
State Hospitals
Programs for the Mentally Disabled
Average Population
1981–82 through 1985–86

	Actual 1981–82	*Actual 1982–83*	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*	*Change Number*	*Change Percent*
Atascadero	1,138	1,103	1,012	1,073	1,111	38	3.5%
Camarillo	733	641	602	596	586 [a]	−10	−1.7
Metropolitan	865	875	913	932	942	10	1.1
Napa	1,292	1,298	1,287	1,232	1,205 [a]	−27	−2.2
Patton	1,110	1,088	998	977	994	17	1.7
Stockton	42	11	12	7	—	−7	—
Totals	5,180	5,016	4,814	4,817	4,838 [a]	21	0.4%

[a] Includes 399 beds proposed to be eliminated in 1985–86. The distribution of the 399 beds between Camarillo and Napa is unknown.

The department bases the proposed staffing reduction on the fact that the population projected for the budget year is significantly below the population figures used as a basis for the staffing levels authorized in the 1984 Budget Act. The 1984 Budget Act assumed that population would be 5,150 on June 30, 1985, and average 5,049 in 1984–85. The budget for 1985–86 projects that the population, instead, will be only 4,873 in June

1985 and 4,801 in June 1986. The budget projects an *average* population of 4,817 in 1984–85 and 4,838 in 1985–86.

Our review of the department's data indicates that (1) the department has budgeted too many beds for Department of Corrections inmates and (2) population in other categories may be overestimated at Atascadero and Patton.

For the past three years, the budget has assumed that the Department of Corrections would contract with the Department of Mental Health for treatment of mentally ill inmates at Atascadero State Hospital. The budget authorized 100 beds for this purpose in 1982–83, 250 in 1983–84, and 300 in 1984–85. The number of inmates served at Atascadero has never exceeded 161 persons, however, and was only 143 in November, the latest available month. In 1983–84 the contract with the Department of Corrections made available $8,279,000 for services. Of that amount, only $4,871,000 was billed. The $3,408,000 that was budgeted by the Department of Corrections for these services, but not used, significantly exceeded the amount needed to care for the inmates in correctional facilities.

Based on our examination of the trends in population, we recommend that the contract between the department and the Department of Corrections provide for the treatment of 175 clients in 1985–86 at a cost of $9.1 million. This would permit a reduction in the amount of reimbursements budgeted for the state hospitals equal to $1,818,000, and a reduction in the General Fund appropriation to the Department of Corrections of $2,236,000. The General Fund reduction is larger than the reduction in reimbursements because the Department of Corrections has budgeted a larger amount for these clients than the Department of Mental Health was scheduled to receive as reimbursements. (Please see our analysis of the Department of Corrections, Item 5240.)

We withhold recommendation on the staffing changes related to other categories of clients until additional data will be available from which to confirm trends in population movement.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY

Item 4300-301 from the General Fund, Special Account for Capital Outlay — Budget p. HW 109

Requested 1985–86	$20,291,000
Recommended approval	1,628,000
Recommended reduction	12,098,000
Recommendation pending	6,565,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Projects for Which Recommendation is Withheld. Withhold recommendation on $6,565,000 for four major capital outlay projects listed below, pending receipt of additional information. 835
   - Item 4300-301-036(2), Replace West Facility Boilers—Agnews State Hospital ($424,000)

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

- Item 4300-301-036(5), Fire and Life Safety and Environmental Improvements Units 11, 12, 13, 14, and 15—Camarillo State Hospital ($546,000)
- Item 4300-301-036(9), Install Additional Chiller and Connect to Central Plant—Lanterman State Hospital ($1,096,000)
- Item 4300-301-036(10), Fire and Life Safety and Environmental Improvements Building 196—Napa State Hospital ($4,499,000)

2. ***Fire and Life Safety and Environmental Improvements, Children's Units. Reduce Item 4300-301-036(3) by $6,627,000.*** Recommend deletion because (1) it is not clear how the Department of Mental Health's proposed population reduction of 193 children/adolescent clients will affect the scope of or need for this project, (2) a study concerning renovation alternatives has not been completed, and (3) preliminary plans will not be completed in the budget year. 837
3. ***Swing Space and Trailer Lease/Camarillo State Hospital. Reduce Item 4300-301-036(4) by $557,000.*** Recommend deletion because (1) it is not clear how the Department of Mental Health's proposed population reduction of 193 children/adolescent clients will affect the scope or need for this project, (2) a study concerning renovation alternatives has not been completed, and (3) preliminary plans will not be completed in the budget year. 837
4. ***Fire/Life Safety and Environmental Improvements, Building 195, Napa State Hospital. Reduce Item 4300-301-036(11) by $185,000.*** Recommend deletion because it is not clear how the Department of Mental Health's proposed population reduction of 193 children/adolescent clients will affect the scope of or need for this project. 837
5. ***Upgrade and Repair Steamplant Boilers, Camarillo State Hospital. Reduce Item 4300-301-036(6) by $505,000.*** Recommend deletion because the project is of a special repair nature and should be funded on a priority basis from the department's support budget. 838
6. ***Install New Water System, Fairview State Hospital. Reduce Item 4300-301-036(8) by $47,000.*** Recommend deletion because (1) the department has not provided adequate information on existing deficiencies or other alternatives, (2) the proposal is overdesigned and too expensive, and (3) the funds included in the budget are not justified. 839
7. ***Fire Detection System, Phase II, Napa State Hospital. Reduce Item 4300-301-036(12) by $50,000.*** Recommend deletion because the proposed work is not required by existing fire safety codes. 839
8. ***Fire and Life Safety Environmental Improvements, Cottage G, Stockton State Hospital. Reduce Item 4300-301-036(13) by $2,570,000.*** Recommend deletion because sufficient space is available in the state hospital system to accommodate the patients housed in this facility. 840

9. Stockton State Hospital. Recommend that the department prepare a five-year plan for phasing-out Stockton State Hospital because (1) per client costs will remain excessive, and (2) sufficient capacity is available at other hospitals to accommodate clients at Stockton State Hospital. 841
10. ***Minor Projects. Reduce Item 4300-301-036 (1) by $1,557,000.*** Recommend deletion of 16 projects which are not justified. 842
11. Construction Costs. Recommend that amounts budgeted for construction under this item be reduced by 3 percent to eliminate overbudgeting of construction costs. 843

ANALYSIS AND RECOMMENDATIONS

The budget proposes a total of $20,291,000 from the General Fund, Special Account for Capital Outlay (SAFCO), for the Department of Developmental Services' Capital Outlay Program. Specifically, $17,437,-000 is included for 12 major capital outlay projects and $2,854,000 is provided for 44 minor projects. These projects, and our recommendations, are summarized below.

A. PROJECTS RECOMMENDED FOR APPROVAL

Electrical Distribution System—Fairview State Hospital

We recommend approval of Item 4300-301-036 (7) for construction work to upgrade the 5 KV electrical distribution system at Fairview.

The budget includes $331,000 to upgrade the 5 KV electrical distribution system at Fairview State Hospital in order to meet existing code requirements and to complete the loop distribution system. A total of $11,000 was provided in the 1984 Budget Act for preliminary plans ($4,000) and working drawings ($7,000).

Preliminary plans for this project were approved by the Public Works Board in September 1984 and working drawings were scheduled to be completed in December 1984. The budget request is consistent with the project as previously approved by the Legislature and we recommend that the item be approved.

B. PROJECTS FOR WHICH RECOMMENDATION IS WITHHELD

We withhold recommendation on $6,565,000 for Items 4300-301-036 (2), (5), (9) and (10), pending receipt of additional information.

We are withholding recommendation on $6,565,000 requested for four major capital outlay projects for the Department of Developmental Services. These projects, and our reasons for withholding recommendation, are summarized in Table 1.

Table 1
Department of Developmental Services
1985–86 Major Capitol Outlay
Projects for Which the Legislative Analyst is Withholding Recommendation
Item 4300-301-036
(dollars in thousands)

Sub-item	*Project Title*	*Hospital*	*Phase*[a]	*Budget Bill Amount*	*Estimated Future Cost*[b]	*Reason for Withholding Recommendation*
(2)	Replace West Facility Boilers	Agnews	pwc	$424	—	Pending receipt of an OSA cost estimate.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

(5) Fire and Life Safety and Environmental Improvements, Units 11, 12, 13, 14, 15..	Camarillo	pw	546	$4,384	Pending receipt of (1) an OSA cost estimate, and (2) clarifying information regarding the number of adolescent beds to be eliminated at Camarillo.
(9) Install Additional Chiller and Connect to Central Plant	Lanterman	wc	1,096	—	Pending receipt of preliminary plans.
(10) Fire and Life Safety and Environmental Improvements, Building 196	Napa	wc	4,499	—	Pending receipt of an OSA cost estimate and preliminary plans.
Totals			$6,565	$4,384	

[a] Phase symbols indicate: p = preliminary planning; w = working drawings; and c = construction.
[b] Department estimate.

We have withheld recommendation on these projects primarily because cost estimates and/or completed preliminary plans have not been forthcoming from the Office of State Architect (OSA). We urge the department to work with the OSA to expedite completion of these items.

C. RECOMMENDED REDUCTIONS/DELETIONS

The department is requesting $10,541,000 for seven major capital outlay projects which we are recommending be deleted from the budget. These projects are listed in Table 2.

Table 2
Department of Developmental Services
1985–86 Major Capital Outlay
Legislative Analyst's Recommended Changes
(dollars in thousands)

Sub-item	*Project Title*	*Hospital*	*Phase* [a]	*Budget Bill Amount*	*Analyst's Recommendation*	*Estimated Future Cost* [b]
(3)	Fire/Life Safety and Environmental Improvements, Children's Units	Camarillo	wc	$6,627	—	—
(4)	Swing Space and Trailer Lease	Camarillo	pwc	557	—	—
(6)	Upgrade and Repair Steamplant Boilers	Camarillo	pwc	505	—	—
(8)	Install New Water Distribution System	Fairview	s	47	—	$3,421
(11)	Fire/Life Safety and Environmental Improvements, Building 195	Napa	pw	185	—	4,444
(12)	Fire Detection System Phase II, Buildings 136, 139, 143, 145, 167, 174, 258	Napa	pw	50	—	403
(13)	Fire/Life Safety and Environmental Improvements, Cottage G	Stockton	wc	2,570	—	—
	Totals			$10,541	—	$8,268

[a] Phase symbols indicate: s = studies; p = preliminary planning; w = working drawings; and c = construction.
[b] Department estimate.

Children and Adolescent Projects at Camarillo and Napa State Hospitals

We recommend deletion of Items 4300-301-036(3), (4) and (11), because it is not clear how the Department's proposal to eliminate 193 children and adolescent beds will affect the scope of these projects or even whether the projects will be needed at all, for a reduction of $7,369,000.

The budget proposes a total of $7,369,000 for three capital outlay projects to remodel bed space for children and adolescent clients at Camarillo and Napa State Hospitals.

Item 4300-301-036(3) includes $6,627,000 for fire/life safety and environmental improvements to the Children's Unit at Camarillo State Hospital. This project would remodel the children's units (66 beds) at Camarillo to bring them into compliance with fire and life safety and environmental standards.

Item 4300-301-036(4) includes $557,000 to (1) remodel four living units for use as swing space and (2) lease and install three trailers at Camarillo. The swing space would provide temporary housing for mental health clients during various phases of fire/life safety and environmental improvement work for mental health clients. The trailers would provide classrooms for the children's use during the construction program. This request is directly related to the children's unit alterations requested under Item 4300-301-036(3).

Item 4300-301-036(11) includes $185,000 to revise preliminary plans and working drawings for a project to provide fire and life safety and environmental improvements to Building 195 of Napa State Hospital. The remodeled building would provide 132 adolescent acute psychiatric beds. The future construction cost is estimated at $4,444,000.

Children and Adolescent Hospital Population is Unclear. As of January 1985, there were 319 children and adolescent clients at Napa and Camarillo State Hospitals. The Governor's Budget proposes to reduce the children/adolescent client population at these hospitals by a total of 193. The department has not indicated where or how these reductions would be achieved.

Prior to this proposal, the department had indicated that sufficient space should be remodeled to provide a total of 384 beds to meet the needs of the children and adolescent programs at Napa and Camarillo. To address a portion of this need, the 1984 Budget Act provided $3.8 million to remodel 102 children's beds at Napa. The proposals in the budget for 1985–86 would remodel 90 children/adolescent beds at Camarillo, and 132 adolescent beds at Napa. Together with the 1984 project, these proposals yield a total of 324 remodeled beds for children and adolescent clients.

The Governor's proposal to reduce the children/adolescent population raises serious questions regarding the need to remodel *additional* bed space at Napa and Camarillo for these clients. Under the proposal, there would be a total of 191 children/adolescents at these two hospitals. Therefore, *the department's capital outlay proposal would remodel 133 beds more than the number needed to serve the planned population.* Clearly, all three of these projects are not needed.

Accordingly, we recommend that the department clarify for the Legislature the number and location of beds it now believes are needed for children and adolescent clients in the state hospital system.

Camarillo State Hospital. The 1984 Budget Act contained $232,000 for a study ($20,000) and preliminary plans ($212,000) for the children's unit project at Camarillo. The study was to address the life cycle costs and benefits of either (1) remodeling the existing children's unit to meet applicable fire, life safety and environmental code requirements, or (2) constructing new space to meet these code requirements. This study was to be submitted to the Legislature for review prior to starting preliminary plans. The plans were then to be developed based on the option that resulted in the least life-cycle cost to the state.

According to the Office of State Architect's (OSA) project schedule, the study was to have been completed in January 1985. At the time this analysis was prepared, however, the study had not been submitted to the Legislature. The OSA schedule indicates further that preliminary plans will not be completed until August 1985. This schedule will not provide the Legislature with sufficient information to approve an amount for working drawings and construction for this project. Moreover, the proposal to eliminate 193 adolescent/children's beds at Camarillo and Napa state hospitals, has cast doubt on the department's current intentions regarding the children's unit population at Camarillo.

For these reasons, we recommend deletion of the $6,627,000 requested for working drawings/construction in connection with the children's units at Camarillo. Since the swing space and trailer lease proposed under Item 4300-301-036(4) would be needed only if the project to alter the children's units proceeds, we recommend deletion of Item 4300-301-036(4), for an additional savings of $557,000.

Napa State Hospital According to the department, preliminary plans and 90 percent of the working drawings for Building 195 were completed in 1980. These plans and drawings were designed to make fire and life safety and environmental modifications for an intermediate care facility (ICF licensure) to provide 184 beds. The department states that the Building 195 program has been changed, and it now proposes to remodel this facility to provide 132 beds for an adolescent acute psychiatric program. Thus, the $185,000 in the budget would be used to change the existing drawings to accommodate this program change.

As indicated above, it is not clear how the department's proposal to eliminate a combined 193 adolescent/children beds at Camarillo and Napa will affect either the scope of or need for this project. Consequently, we recommend deletion of Item 4300-301-036(11), for a reduction of $185,000.

Upgrade/Repair Steamplant Boilers—Camarillo State Hospital

We recommend deletion of Item 4300-301-036(6) because the proposed project is of a repair nature and should be funded from the department's support budget, for a reduction of $505,000.

The budget includes $505,000 under Item 4300-301-036(6) for preliminary plans, working drawings and construction to upgrade and repair three boilers at Camarillo State Hospital. The project includes removal of one boiler and repair and/or installation of new controls on the remaining boilers.

The proposed work is of a maintenance/repair nature and should be funded on a priority basis from the department's support budget. The budget includes $3,144,000 under Item 4300-111-036 for maintenance/repair projects for the Department of Developmental Services. These funds are provided specifically for the type of work the department proposes to undertake on the Camarillo boilers. The need for this work should therefore be considered in connection with other maintenance/repair needs throughout the hospital system, and funded based on its priority. Consequently, we recommend that this item be deleted, for a savings of $505,000.

Install New Water System—Fairview State Hospital

We recommend deletion of Item 4300-301-036(8) because (1) the department has not provided adequate information on existing deficiencies or other alternatives, (2) the department's proposal is overdesigned and too expensive, (3) the amount included in the budget is not justified, for a reduction of $47,000. (Future Savings: $3,421,000.)

The budget proposes $47,000 under Item 4300-301-036(8) to conduct a study of the water distribution system at Fairview State Hospital. The department indicates that mineral deposits inside the water pipes have reduced the amount of water that can flow through the system. The department is concerned that the restricted flow will provide neither sufficient water in the event a fire occurs in a multistory structure nor adequate water pressure to operate appropriately the automatic dishwashers located throughout the hospital.

The funds proposed in the budget would be used to determine the most appropriate method to replace the water system with three separate systems—fire, domestic, and irrigation. The department estimates the future cost of this project to be $3,421,000.

Our analysis indicates that this project is not justified in the budget year, for two reasons. First, the department has not provided sufficient information to substantiate its contention that the existing system is inadequate. The State Administrative Code requires hospital water systems to be designed to supply water to the fixtures/equipment on the uppermost floors at a *minimum* pressure of 15 pounds per square inch (psi) during maximum demand periods. The department indicates that water is supplied to the hospital at a pressure of 72 psi, but fails to identify the pressure within the system.

Second, the department's proposal to install *three separate water systems* is overdesigned and too expensive. Most, if not all, state institutions have a single water distribution system. A properly designed single system meets all code requirements and is more economical to install and maintain. The water system at Fairview has served the hospital for 24 years and there is no reason to believe that this system was not properly designed. Moreover, major fire/life safety and environmental improvements to correct all applicable code deficiencies were recently completed at this hospital. During this improvement program, there was no indication that there was a need to replace the water distribution system.

For these reasons, we recommend deletion of Item 4300-301-036(8), for a savings of $47,000.

Fire Detection System, Phase II—Napa State Hospital

We recommend deletion of Item 4300-301-036(12) because the proposed work is not required by existing fire safety codes, for a savings of $50,000.

The budget proposes $50,000 under Item 4300-301-036(12) for preliminary plans and working drawings to install fire detection systems in seven buildings at Napa State Hospital. Two of these buildings house school activities and the remaining buildings serve hospital support functions such as plant operations, administration, and an upholstery shop. The

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

department estimates the future construction cost of this project at $403,000.

The department's justification for this project is based on an Office of the State Fire Marshal (SFM) survey. This survey, however, was conducted five years ago. Since the codes are modified on a three-year schedule, the requirements for this project may no longer be the same. Moreover, the 1979 survey outlined several improvements that would be *desirable* from the SFM's perspective but were not needed based on the fire safety code. Under the circumstances, we recommend deletion of the requested funds, for a reduction of $50,000. If the department and the SFM identify work that must be undertaken to meet *current* code requirements, the department should submit a proposal addressing these problems for legislative consideration.

Fire and Life Safety and Environmental Improvements, Cottage G—Stockton State Hospital

We recommend deletion of Item 4300-301-036 (13), to remodel Cottage G, because sufficient space has already been remodeled in the state hospital system to accommodate the SNF clients at Stockton State Hospital, for a savings of $2,570,000.

The budget proposes $2,570,000 under Item 4300-301-036 (13) for working drawings and construction to remodel the Cottage G skilled nursing facility (SNF) at Stockton State Hospital in order to make fire and life safety and environmental improvements. The work includes modifications to correct fire, life safety, and handicapped code deficiencies and to improve the environment by providing items such as privacy partitions, comfort conditioning and individual wardrobes. According to the department, there currently are 103 SNF clients at Stockton State Hospital. By curtailing admissions and through transfers to community facilities, the department plans to reduce the SNF population to 80. The remaining population would then be accommodated in the remodeled Cottage G.

State Hospital System Can Accommodate Clients in Cottage G. In our analysis of the support budget for the Department of Developmental Services, (please see page 820), we indicate that between 1978–79 and 1983–84, the state hospital developmentally disabled (DD) population decreased by an average of 330 persons per year. Moreover, the Governor's Budget indicates that the DD hospital population will be 6,965 at the end of this fiscal year and will decline to 6,750 by June, 1986.

Under the statewide fire/life safety and environmental improvement program completed in July 1982, the state remodeled 7,443 hospital beds for DD clients. Of this amount, 2,073 beds were remodeled for SNF clients. The most recent DD hospital population figures indicate, however, that there are approximately 158 vacant SNF program beds available in the state hospital system. In fact, the department has recently indicated that it would be possible to accommodate most of Stockton's SNF clients in other state hospitals.

Consequently, there are a sufficient number of remodeled SNF beds throughout the state hospital system to accommodate the clients located in Cottage G. In view of this, it would be more cost-effective for the department to curtail admissions and transfer the existing clients either to community facilities or to other state hospitals. On this basis we recommend deletion of funds for working drawings/construction to remodel Cottage G at Stockton, for a savings of $2,570,000.

State Hospital System Has Sufficient Space To Allow Phasing-Out Stockton State Hospital.

We recommend that the department prepare a five-year plan for phasing-out Stockton State Hospital because (1) Stockton's per client operating and support expenditures are excessive, and (2) sufficient capacity will be available at other hospitals to accommodate the DD clients currently at Stockton.

Support/Operation Costs at Stockton Will Remain Excessive. In the *Supplemental Report to the 1984 Budget Act,* the Legislature directed the department to evaluate the feasibility of and potential net savings from a program to reduce unit costs for support of clients at Stockton State Hospital in order to bring expenditures in line with expenditures at other state hospitals. If this proved not to be feasible, the department was required to evaluate the option of closing the facility by transferring clients to other state hospitals and community facilities. The department was to report its findings to the Legislature by December 1, 1984.

The department's report concludes that although *some* reduction in support staffing and operating expenditures can be achieved, the costs at Stockton State Hospital will continue to be excessive when compared with costs at other state hospitals. For example, Stockton State Hospital's operating expenses will be approximately $12,000 per client in 1985–86 compared with $8,000 per client at other hospitals. At the same time, salary and benefit costs for support positions at Stockton will be approximately $21,000 per client, compared to $17,000 per client at the other hospitals. The department's report concludes that the 1985–86 costs reflect the expenditure reductions that can be achieved at Stockton State Hospital. Apparently, the costs to operate this hospital will continue to be significantly higher than what they are at other state hospitals.

Statewide-Hospital System Can Absorb Stockton State Hospital Population. Based on the department's projections, there will be 478 vacant beds in the DD hospital system by the end of the current year. This vacancy rate will increase to 693 by the end of the budget year. Moreover, given the seven-year downward trend of the DD population in state hospitals and the department's projection that this population will continue to decline, it is reasonable to expect an increasing number of vacant beds in the system. Thus, there will be sufficient capacity in the system to accommodate the 562 DD clients at Stockton State Hospital.

Given the high costs at Stockton and the large number of vacant beds elsewhere, we believe consideration should be given to phasing-out Stockton State Hospital. To permit legislative consideration of this option, we recommend that the department develop a five-year plan to phase-out Stockton State Hospital. The department should submit this plan to the Legislature by November 1, 1985. At a minimum, the plan should identify:

- The state hospitals and/or community facilities where the Stockton DD clients could be accommodated.
- A feasible time schedule for transferring these clients to appropriate facilities.
- Alternatives for reassigning staff to (1) other state hospitals, (2) community facilities, or (3) other state institutions.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

- The specific costs and savings associated with all aspects of the plan, including relocating clients and staff and closing the facility.
- The estimated revenue from leasing and/or selling the buildings and land.

D. MINOR CAPITAL OUTLAY

The budget includes $2,854,000 from the Special Account for Capital Outlay for Minor Capital Outlay projects ($200,000 or less per project) to be undertaken by the Department of Developmental Services. The request would fund 44 projects at various hospitals. Table 3 summarizes this program by descriptive category and shows our recommendations for each category.

Table 3
Department of Developmental Services
1985–86 Minor Capital Outlay Projects
Item 4300-301-036(1)
(dollars in thousands)

	Budget Bill		Analyst's Recommendation	
Category	*Number of Projects*	*Amount*	*Number of Projects*	*Amount*
1. Projects to Eliminate Program Deficiencies	16	$1,234	12	$628
2. Health and Safety	6	304	2	49
3. Site Improvements	15	973	7	277
4. Energy Conservation	7	343	7	343
Totals	44	$2,854	28	$1,297

Minor Capital Outlay

We recommend that Item 4300-301-036(1) be reduced by $1,557,000 to eliminate 16 projects which are not justified.

We recommend deletion of $606,000 to remove funding for 4 minor projects that are intended to eliminate program deficiencies. These projects range in cost from $76,000 to install a passenger elevator in the P.A.B. Building at Sonoma State Hospital to $195,000 to construct outdoor activity space at Fairview State Hospital.

We recommend deletion of $255,000 to eliminate funding requested for 4 projects involving health and safety modifications. These projects range in cost from $14,000 to install a fire alarm system in buildings 152, 153, and 110 at Agnews State Hospital to $118,000 to make fire/life safety corrections to nonresidential buildings at Fairview State Hospital.

We recommend deletion of $696,000 to eliminate funding requested for 8 projects that would make site improvements. These projects range in cost from $17,000 to install safety screens around roof mounted HVAC systems to $198,000 to make additional modifications and additions to the air conditioning system at Fairview State Hospital.

These recommendations are based on one or more of the following factors:

- The project is not required by existing codes.
- The work proposed can be accomplished in another less-costly manner.

- The project is of a special repair nature.
- The department has submitted inadequate information to describe either the work to be done or the deficiencies to be corrected.

Overbudgeted Construction Funds

We recommend that the amount approved for construction in Item 4300-301-036 be reduced by 3 percent to eliminate overbudgeting of construction costs.

The Governor's Budget requests $14,184,000 for the construction phase of various projects. This amount is based on what the construction cost index is expected to be in July 1, 1985. At the time the index was projected for the budget year, the projected level was reasonable. Inflation, however, has not increased as anticipated.

Using the most recent indices, and adjusting them by the currently 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.

DEPARTMENT OF DEVELOPMENTAL SERVICES—REVERSION

Item 4300-495 to the General Fund — Budget p. 88

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes reversion of the unencumbered balance remaining from the appropriation to the Department of Developmental Services for the purpose of implementing Ch 569/80. The funds would revert to the unappropriated surplus of the General Fund.

Chapter 569, Statutes of 1980, appropriated $2 million for development of intermediate care facilities for the developmentally disabled (habilitative) (ICF-DD(h)) for clients that were residents of Patton State Hospital. This activity is now completed. As of January 10, 1985, a balance of $77,000 remained unexpended. We recommend approval of the proposed reversion.

Health and Welfare Agency

DEPARTMENT OF MENTAL HEALTH—EXCLUDING STATE HOSPITALS

Items 4440-001 and 4440-101
from the General Fund Budget p. HW 111

Requested 1985–86	$462,115,000
Estimated 1984–85	392,282,000
Actual 1983–84	340,645,000
Requested increase (excluding amount for salary increases) $69,833,000 (+17.8 percent)	
Total recommended reduction	996,000
Recommendation pending	40,000,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4440-001-001—Department support	General	$18,834,000
4440-016-001—Department support	General	4,293,000
4440-101-001—Local assistance	General	438,988,000
Subtotal		$462,115,000
4440-001-890—Department support	Federal	(531,000)
4440-101-890—Local assistance	Federal	(13,554,000)
—Reimbursements		(41,872,000)
Total		($518,072,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Jameson v. Farabee.*** Recommend that by April 15, 1985, the department prepare a report suggesting ways to improve the cost-effectiveness of the system for conducting independent reviews of those state hospital residents who are receiving medication involuntarily. 848
2. Conditional Prerelease Program. Recommend that prior to budget hearings, the department identify, by Budget Bill item, the savings that will be realized by programs whose clients are transferred to the conditional prerelease program. 849
3. Forty Million Dollar Augmentation. Withhold recommendation, pending receipt of a spending proposal identifying the clients most in need of service and the services most urgently needed by that clientele. 850
4. Data Needed for Equitable Allocations. Recommend the department collect data on the distribution of mentally disabled SSI/SSP recipients, so that the Legislature will know where the seriously mentally ill are located in California. 852
5. ***Transfer of Savings. Reduce Item 4440-101-001 by $996,000.*** Recommend reduction because the department has not justified the proposed transfer of state administrative savings to counties. Further recommend that the department document the workload reductions which produce the state administrative savings. 853

6. ***Mental Health Bed Buy-Out Proposal. Reduce Item 4440-101-001 by $10,045,000 and augment Item 4440-121-001 by $5,045,000.*** Recommend that the Legislature reject the budget's proposal to eliminate 399 state hospital beds, because the proposal increases costs with no identified increase in benefits and is not adequately defined, for a net reduction of $5 million. (This recommendation is discussed in our analysis of the budgets for the state hospitals, Item 4440-121-001.) 854

GENERAL PROGRAM STATEMENT

The Department of Mental Health directs and coordinates statewide efforts aimed at the treatment and prevention of mental disabilities. The department's primary responsibilities are to:

1. Administer the Short-Doyle Act, which provides for delivery of mental health services through a state-county partnership.
2. Operate Atascadero, Patton, and Metropolitan State Hospitals, which serve the mentally disabled exclusively.
3. Manage programs for the mentally disabled located at Camarillo and Napa State Hospitals, which serve both the mentally and developmentally disabled.
4. Manage the Lanterman-Petris-Short Act, which provides for involuntary treatment of the mentally disabled.

The department has 636.2 authorized positions in the current year.

This analysis covers department support and local mental health programs. The analysis of the budget for state hospital programs serving the mentally disabled is contained in our analysis of the state hospitals (Items 4300-111, 4440-011, and 4440-121).

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of $518,072,000 (all funds) for the support of the Department of Mental Health's activities in 1985–86. This is an increase of $65,365,000, or 14 percent, above estimated current-year expenditures.

Proposed General Fund expenditures for support of the department and its programs are $462,115,000, which is $69,833,000, or 18 percent, above the level of expenditures estimated in the current year. This increase will grow by the cost of any salary or staff benefit increase approved for the budget year.

Table 1
Department of Mental Health
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*
Department support	$28,963	$31,911	$24,375	–$7,536	–23.6%
Subventions to local mental health programs	377,669	420,796	493,697	72,901	17.3
Totals	$406,632	$452,707	$518,072	$65,365	14.4%
Funding sources					
General Fund	*$340,645*	*$392,282*	*$462,115*	*$69,833*	*17.8%*
Reimbursements	*50,751*	*44,854*	*41,872*	*–2,982*	*–6.6*
Federal funds	*15,236*	*15,571*	*14,085*	*–1,486*	*–9.5*

DEPARTMENT OF MENTAL HEALTH—EXCLUDING STATE HOSPITALS—Continued

The proposed General Fund increase of $69.8 million reflects increases of:

- $40 million for local mental health programs.
- $14.5 million for a 4 percent cost-of-living adjustment to local mental health programs.
- $10 million for local mental health programs so they may reduce their usage of state hospital beds.

Table 1 shows expenditures for the department's activities in the prior, current, and budget years.

ANALYSIS AND RECOMMENDATIONS

A. DEPARTMENT SUPPORT

The budget proposes total expenditures of $24,375,000 for support of the Department of Mental Health in 1985–86. This is a decrease of $7,536,000, or 24 percent, below estimated current-year expenditures. The reduction reflects the budget's proposal to eliminate 296.6 positions in the department, or nearly one-half of the positions authorized for the current year.

Table 2 shows five-year trends in expenditures, source of funds, and authorized positions for departmental support.

Table 2
Department of Mental Health
Trends in Department Support
1981–82 through 1985–86
(dollars in thousands)

	Expenditures				*Source of Funds*			
	Salaries	*Benefits*	*Operating Expenses*	*Totals*	*Reimbursements*	*Federal Funds*	*General Fund*	*Authorized Positions*
1981–82	$17,303	$5,276	$8,482	$31,061	$1,137	$710	$29,214	712.3
1982–83	15,996	4,287	7,531	27,814	1,990	1,216	24,608	650.5
1983–84	15,367	5,142	8,454	28,963	4,173	1,347	23,443	601.5
1984–85	17,005	5,090	9,816	31,911	3,727	730	27,454	636.2
1985–86	10,193	2,852	11,330	24,375	717	531	23,127	336.6
Change from 1984–85								
Amount	−6,812	−2,238	+1,514	−7,536	−3,010	−199	−4,327	−296.6
Percent	−40.0%	−44.0%	+15.4%	−23.6%	−80.8%	−27.3%	−15.8%	−47.1%

Budget Changes. Table 3 shows the changes in the department's budget proposed for 1985–86. The major changes reflect (1) the proposed implementation of the state-managed conditional prerelease program for penal code clients leaving state mental hospitals and (2) the transfer of Office of Mental Health Social Services positions to the counties pursuant to Ch 1330/84.

Transfer of the Office of Mental Health Social Services

We recommend approval.

The budget proposes to transfer 247.6 positions and $9,569,000 in General Fund monies from department support to the local assistance item,

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

	General Fund	*All Funds*
1984–85 expenditures (Budget Act)	$25,722	$30,027
Adjustments		
1. 1984–85 salary and benefit increases	1,675	1,718
2. Transfer of Office of Mental Health Social Services (OMHSS) to Lassen/Plumas and Santa Clara	−424	−467
3. Receipt of federal manpower funds	—	152
4. Adjustment to salary schedule	−619	−619
5. Appropriation for brain-damaged adults (Ch 1658/84)	1,100	1,100
1984–85 expenditures (revised)	$27,454	$31,911
Baseline adjustments, 1985–86		
1. Reduction of manpower funds	—	−$93
2. Full-year effect of 1984–85 salary and benefit increases	$53	10
3. Elimination of limited-term positions to administer federal block grants	—	−91
4. Adjustment to department's CALSTARS contribution	94	94
5. Adjustment to 1985–86 salary schedule	48	48
6. Five percent cost-of-living adjustment for OMHSS placement funds	138	186
7. Adjustment to prevent double-counting of Santa Clara OMHSS transfer	392	435
8. Other adjustments	16	9
Program change proposals		
1. Expansion of *Jameson v. Farabee* reviews of involuntary medication of state hospital clients	597	597
2. Establishment of conditional prerelease program		
a. New positions	559	559
b. Purchase of services	4,293	4,293
3. Establishment of new positions to implement home- and community-based services pilot project	58	115
4. Implementation of legislation		
a. Transfer OMHSS positions to counties	−9,070	−12,193
b. Eliminate 12.5 OMHSS overhead positions	−348	−348
c. Eliminate 20 permanent positions	−677	−677
d. Eliminate 14.5 limited-term positions	−319	−319
5. Eliminate positions due to administrative reorganization	−161	−161
1985–86 expenditures (proposed)	$23,127	$24,375
Change from 1984–85 (revised):		
Amount	−$4,327	−$7,536
Percent	−15.8%	−23.6%

in order to reflect the transfer of the Office of Mental Health Social Services (OMHSS) to counties.

Chapter 1330, Statutes of 1984 (AB 3921), requires the department to transfer administrative, fiscal, and program responsibilities for the OMHSS to county mental health programs no later than June 30, 1985. The proposed transfer in 1985–86 involves funding for 247.6 OMHSS positions and 12.5 overhead support positions that are also proposed for elimination. Two counties (San Francisco and San Diego) will not be affected by the transfer in 1985–86 because their charters require a vote of the electorate before state employees can be transferred to the local civil service systems.

DEPARTMENT OF MENTAL HEALTH—EXCLUDING STATE HOSPITALS—Continued

This transfer has been legislatively mandated, and we recommend that it be approved.

Jameson v. Farabee

We recommend that the department prepare, by April 15, 1985, a report suggesting ways to make the proposed system for independent medication reviews more cost-effective.

The budget proposes an augmentation of $597,000 in order to increase the number of independent reviews that will be conducted in cases where mentally disabled clients in state hospitals are medicated against their will. Currently, Napa State Hospital operates a program that provides for independent outside reviews whenever medication is administered to state hospital patients on an involuntary basis. The budget proposes to expand the program to the other state hospitals serving county clients. The total amount requested for these reviews in 1985–86 is $996,000.

The reviews at Napa are required by the *Jameson v. Farabee* consent decree, which specifies the conditions under which certain patients may be involuntarily medicated, as well as the conditions under which independent outside reviews are required. The consent decree does not specifically require expansion to other hospitals. The department, however, proposes to expand the current review system in order to (1) extend to clients of other hospitals the protections available to Napa patients and (2) avoid further litigation of this matter.

The department has prepared a report on the implementation of independent reviews at Napa. Based on data in the report, we conclude that:

1. These reviews are very costly, relative to the number of instances in which the reviewers find inappropriate medication is being administered. The report indicates that in 98 percent of the cases, the independent reviewers confirmed the need for clients to be involuntarily medicated.
2. A number of clients who were committed to the hospital on the basis of grave disability are the subject of independent reviews, even though the client has signed a consent form and is capable of providing informed consent. Independent review of these cases adds substantially to the cost of the program. The department indicates that these cases are reviewed because it has no basis for routinely determining whether clients are capable of giving informed consent.

We believe these findings bring into question the utility of many independent reviews conducted by the hospital. For this reason, we recommend that the department report to the Legislature, by April 15, 1985, on ways to make the system for independent medication reviews more cost-effective. While this would not leave the department much time to prepare its report, time is of the essence. This is because in May 1985, the department must appear before the U.S. District Court to review findings from the Napa project. When it does so, it should also be prepared to suggest to the court ways in which the consent decree could be modified in order to make its implementation more cost-effective.

The report should evaluate the feasibility of (1) obtaining medication consent forms from conservators at the time hearings are held to establish the client's grave disability, (2) developing procedures to determine whether clients are capable of informed consent, thereby allowing the department to accept signed consent forms from these clients, and (3) improving scheduling and other procedures at the hospital to reduce the time the independent reviewers must spend on routine cases.

Conditional Prerelease Program

We recommend that prior to budget hearings, the department identify, by Budget Bill item, the savings that other programs will realize when their clients are transferred to the conditional prerelease program.

The budget for 1985–86 requests $4,852,000 for a new program intended to provide supervision and outpatient treatment of mentally disordered penal code clients released from state hospitals. On an annual basis, the conditional prerelease program is estimated to cost approximately $9.1 million.

Effective January 1986, Ch 1327/84 (AB 2381) makes the state responsible for the outpatient supervision and treatment of individuals who have been found not guilty by reason of insanity, incompetent to stand trial, or classified as a mentally disordered sex offender and who are discharged from a state hospital. Currently, 18 counties operate aftercare ("AB 1229") programs for former state hospital penal code clients. The current program has approximately 575 clients and is supported by a General Fund appropriation of $3.6 million. In addition, Ch 1488/84 (SB 1984) requires the state program to supervise and treat, for at least one year, all not-guilty-by-reason-of-insanity clients who are released from state hospitals as a result of restoration-of-sanity hearings.

The conditional prerelease program will serve an estimated caseload of 910 persons, consisting of: (1) 575 clients in the existing AB 1229 programs, (2) 116 individuals currently on parole in counties without an AB 1229 program, (3) 50 individuals served by community outpatient treatment programs, (4) 38 additional hospital discharges, and (5) 131 persons added as a result of Ch 1488/84. The amount requested in the budget for this program includes $1.8 million transferred from AB 1229 programs and $3.1 million in new funds.

The budget change proposal indicates that the program will operate by contracting with county mental health programs to establish distinct and separate conditional prerelease program units. Where counties do not wish to participate or where a multi-county service area is appropriate, the department will contract with private service providers. The department intends to establish service standards for four different categories of clients and closely monitor the program in order to verify that clients receive the supervision and treatment specified in the standards. The department's goal is to reduce the felony reoffense rate within one year of release to 3 percent. The current reoffense rate is 5.6 percent for those in a parole or aftercare program and 14 percent for those not in a post-release program. The program will emphasize public safety, as well as treatment.

Our review indicates that the department's proposal reduces the budget of only one of the programs with clients who would be transferred to the conditional prerelease program. The budgets of the other programs have not been reduced to reflect the lower caseload. Accordingly, we recommend that the department identify the amounts, by budget item, that would have been expended on client services in these other programs if the conditional prerelease program were not available, so that the Legislature can make the necessary adjustments to eliminate double-budgeting.

DEPARTMENT OF MENTAL HEALTH—EXCLUDING STATE HOSPITALS—Continued

B. LOCAL MENTAL HEALTH PROGRAMS

The budget proposes an appropriation of $438,988,000 from the General Fund for assistance to local mental health programs in 1985–86. This is an increase of $74,160,000, or 20 percent, above estimated current-year expenditures. Total expenditures for local mental health programs in 1985–86, including expenditures from reimbursements and federal funds, are proposed at $493,697,000, which is $72,901,000, or 17 percent, above estimated current-year expenditures. Table 4 displays local assistance expenditures and funding sources for the past, current, and budget years.

Table 4
Department of Mental Health
Local Assistance 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*
General Fund	$317,202	$364,828	$438,988	$74,160	20.3%
Reimbursements	46,578	41,127	41,155	28	—
Federal funds	13,889	14,841	13,554	−1,287	8.7
Totals	$377,669	$420,796	$493,697	$72,901	17.3%

Budget Changes. Table 5 shows the changes to the department's budget for local mental health programs that are proposed for 1985–86.

Forty Million Dollar Augmentation

We withhold recommendation on the $40 million augmentation requested for local mental health programs, pending receipt from the department of a spending proposal that identifies the clients most urgently in need of service and the services most urgently needed by that clientele. We recommend that the department submit this information to the Legislature by April 1, 1985.

The budget proposes to increase the General Fund appropriation for operation of county mental health programs by $40 million, or 11 percent, in 1985–86.

The department states that in using these funds, its objectives are to (1) increase mental health services to children by 40 to 45 percent, (2) develop services that will act as alternatives to state and local hospitalization, and (3) allocate funds on a equitable basis using the "poverty/population index."

In support of the augmentation request, the department states that:

- Local mental health programs should be serving additional clients. The augmentation "could" allow the delivery of services to 60,000 more persons.
- Local mental health services for children are relatively underdeveloped, representing only 15 percent of the funds and 12 percent of the clients.
- Jails, juvenile centers, probation departments, and welfare agencies have been required to "absorb and manage" mentally ill clients because local mental health programs have not been able to treat and manage potential clients.

Table 5
Department of Mental Health
Local Assistance—Mental Health Programs
Proposed Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1984–85 expenditures (Budget Act)	$364,007	$418,492
Adjustments:		
1. Transfer Office of Mental Health Social Services (OMHSS) for Lassen/ Plumas and Santa Clara	424	424
2. Appropriation for Ventura County children's services (Ch 1474/84)	200	200
3. Carry-over funds	197	1,453
4. Federal disaster assistance	—	31
5. Primary prevention funds	—	196
1984–85 expenditures (revised)	$364,828	$420,796
Baseline adjustments, 1985–86:		
1. Elimination of one-time carry-over funds	−$197	−$1,453
2. Adjustment to prevent double-counting of Santa Clara OMHSS transfer	−392	−436
3. Primary prevention funds	—	72
4. Elimination of one-time federal disaster funds	—	−31
5. Appropriation for Ventura County children's services (Ch 1474/84)	1,344	1,344
Program change proposals:		
1. Local program augmentation	40,000	40,000
2. 1984 legislation		
a. Transfer of OMHSS functions to counties (Ch 1330/84)	9,569	9,569
b. Transfer to counties of savings from elimination of 20 permanent and 14.5 limited-term positions (Ch 1327/84)	996	996
c. Transfer of mentally disordered offender outpatient programs to state from counties (Ch 1327/84)	−1,781	−1,781
2. State hospital bed reduction		
a. Transfer of state hospital staff savings to counties	5,045	5,045
b. Budget augmentation	5,000	5,000
Four percent cost-of-living adjustment	14,576	14,576
1985–86 expenditures (proposed)	$438,988	$493,697
Change from 1984–85 (revised):		
Amount	$74,160	$72,901
Percent	20.3%	17.3%

- There are an estimated 45,000 homeless mentally disordered persons in California.

It is probable that a large number of mentally disabled persons could benefit from various types of additional mental health services. It is difficult, however, to evaluate the department's proposal or estimate the impact that approval of this augmentation would have on the mental health of California residents. This is because the proposal is expressed in generalities, not specifics. For example, the proposal does not specify what kinds of services are most urgently needed, either by children or by adults, what clientele within the broad categories of children and adults are most in need of assistance, or how the funds would be used specifically to address the service needs. Nor does the proposal specify how the funds will be used to develop alternatives to hospitalization. Finally, the proposal

DEPARTMENT OF MENTAL HEALTH—EXCLUDING STATE HOSPITALS—Continued

contains no information that would enable the Legislature to document that $40 million is an appropriate amount, given the benefits to be achieved.

In short, our review of the department's request indicates that a much more substantive proposal is needed before the Legislature will be in a position to determine the appropriate funding level for local mental health programs in 1985–86.

We recommend that, by April 1, 1985, the department, in conjunction with the Conference of Local Mental Health Directors, prepare for the Legislature a proposal that specifically addresses the following questions:

1. Which categories of mentally ill children and adults are most urgently in need of additional service? What is the basis for this conclusion?
2. What kind of services does that high-priority clientele require? What is the basis for this assessment?
3. How does the department intend to allocate the $40 million among service categories? Does the department intend to earmark funds? If not, how will the department assure that funds are used for the priority categories?
4. Approximately how many clients in the priority groups would be served? What are the estimated unit costs for the services needed? What measures should the department take to insure that counties will pay a reasonable price for services purchased?
5. If the funds were earmarked for various high-priority services, on what basis should allocations to counties take place? How should allocations be made for small counties that may need to pool funds in order to effectively use them?

We withhold recommendation on the $40 million augmentation proposal because we do not have sufficient information to evaluate it. Without the information, we cannot determine what clientele should be served or what additional services need to be purchased.

The Equity Allocation System

We recommend that the Legislature adopt supplemental report language requiring the department to determine the distribution of mentally disabled SSI/SSP recipients in California.

In the spring of 1984, the department developed a "poverty/population model" for allocating new funds to counties. The county mental health directors participated in the development of the model and generally supported it as an acceptable way to allocate approximately $23.9 million of the $44.5 million in new funds that were available for 1984–85. The remaining $20.6 million was allocated as an across-the-board 6.5 percent inflationary adjustment.

The poverty/population model assigns equal weight to (1) a county's total population and (2) the number of its residents receiving welfare benefits under the Aid to Families with Dependent Children (AFDC) and Supplemental Security Income/State Supplementary Payment (SSI/SSP) programs. Thus, a county with 10 percent of the state's population and 20 percent of its welfare population would be entitled to 15 percent of the funds when "equity" is ultimately achieved.

In 1984–85 the $23.9 million available for equity adjustments was distributed based on a sliding scale. Counties whose base allocations were less than the share of funds specified by the poverty/population model received larger percentage increases. Counties whose base allocations exceeded the share of funds specified by the model received smaller percentage increases. All but one county received some equity funds in 1984–85. The size of the increase ranged from approximately 1 percent to 15 percent of the base allocation. The department indicates that this procedure will be used to allocate the $40 million in new funds available for 1985–86.

Our analysis indicates that the poverty/population model may not be a good indicator of how the seriously mentally ill are distributed within California and thus may not distribute new funds to localities with the greatest concentrations of mentally ill persons.

We believe a better indicator of how the seriously mentally ill population is distributed may be the distribution of the population that receives SSI/SSP welfare assistance *due to mental disability.* This group comprises a large share of the chronically mentally ill population in California and consumes a very large, though unknown, percentage of the mental health services available through the county mental health programs and state hospitals.

If the Legislature knew how the mentally disabled SSI/SSP population is distributed within the state, it would be in a much better position to determine where the greatest unmet needs for services are and thus how to distribute new funds in the most effective manner. To secure this information for the Legislature, we recommend the adoption of supplemental report language requiring the Department of Mental Health to work with county, state, and federal agencies to determine the distribution of the SSI/SSP caseload that qualifies for aid because of a mental disability. The following supplemental report language would achieve this result.

> "By November 1, 1985, the Department of Mental Health shall report to the Joint Legislative Budget Committee and the fiscal committees on the distribution, by county, of individuals who, by virtue of mental disability, receive SSI/SSP welfare assistance. The department shall work with appropriate county, state, and federal agencies in attempting to develop the information."

Position Reductions Related to Legislation

We recommend deletion of $996,000 from local assistance because the department has not justified the transfer of state administrative savings to counties. (Reduce Item 4440-101-001 by $996,000.) We further recommend that the department submit to the Legislature documentation of the effect of Ch 1327/84 on workload and staffing.

The budget proposes the elimination of 20 permanent positions and 14.5 limited-term positions and the transfer of the General Fund savings resulting from the position cuts—$996,000—from department support to the local assistance item. The positions are proposed for elimination because of workload reductions brought about by Ch 1327/84 (AB 2381).

In the 1984–85 budget, on the basis that AB 2381 would result in workload reductions, the department proposed to eliminate the 34.5 positions. The Legislature, however, restored the positions because the legislation had not passed by the time final action on the 1984 Budget Bill was required.

The budget material submitted by the department does not specifically identify or quantify the workload reductions that have occurred as a result

DEPARTMENT OF MENTAL HEALTH—EXCLUDING STATE HOSPITALS—Continued

of Ch 1327/84. The position reductions are generally in areas affected by Chapter 1327: auditing, financial management, and monitoring county programs. The department has not documented what changes it intends to make in procedures for reviewing and auditing county programs, however, and specifically how those changes affect staffing levels.

The budget contains no explanation whatsoever of the purpose of the $996,000 local assistance augmentation. There is no legal requirement that these funds be made available to the counties. In this particular case, the $996,000 augmentation would be in addition to the $40 million augmentation proposed for local assistance programs and in addition to whatever administrative savings the counties have realized as a result of the mental health initiative legislation.

Due to the absence of any justification for the augmentation, we recommend deletion of the $996,000 from the local assistance item. We further recommend that the department prepare written material explaining the effect of Ch 1327/84 on workload in the affected units of the department and the reason for the position reductions.

Mental Health Bed Buy-Out Proposal

We recommend that the Legislature reject the budget's proposal to eliminate 399 state hospital beds because the proposal (1) would increase costs with no identified increase in benefits and (2) is not adequately defined, for a net reduction of $5,000,000 from the General Fund. (Reduce Item 4440-101-001 by $10,045,000 and augment Item 4440-121-001 by $5,045,000.)

The budget proposes the elimination of 399 state hospital beds currently used to serve mentally disabled clients. This reduction of the beds would permit gradual elimination of 400.6 hospital positions and a savings of $5,045,000 in the hospitals' budgets for 1985–86. The budget further proposes to transfer the 1985–86 savings—$5,045,000—plus an augmentation of $5 million to the local assistance item, so that county mental health programs may develop 399 alternative local program beds. Thus, the net cost of the proposal is $5 million in 1985–86.

This proposal, together with our comments and recommendations, is discussed in our analysis of the budgets for the state hospitals, Item 4440-121-001 (please see page 830).

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY

Item 4440-301 from the General Fund, Special Account for Capital Outlay — Budget p. HW 124

Requested 1985–86	$26,362,000
Recommended approval	10,017,000
Recommended reduction	1,380,000
Recommendation pending	14,965,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. We withhold recommendation on $14,317,000 for the following projects pending receipt of additional information: 856
   - Item 4440-301-036(4), Fire, Life Safety and Environmental Improvements CTW Building—Metropolitan State Hospital ($11,105,000).
   - Item 4440-301-036(5), Upgrade Electrical Distribution System—Metropolitan State Hospital ($2,011,000).
   - Item 4440-301-036(7), Fire, Life Safety and Environmental Improvements U Building—Patton State Hospital ($1,201,000).
2. ***Install Modular Office Buildings—Atascadero State Hospital. Reduce Item 4440-301-036(2) by $275,000.*** Recommend deletion because the Legislature has previously deleted funds for this project and the department has not presented any additional information to justify reconsideration. 857
3. ***Heating and Air Conditioning of Patient-Occupied Buildings—Atascadero State Hospital. Reduce Item 4440-301-036(3) by $192,000.*** Recommend reduction because construction costs have been overbudgeted. 858
4. ***Fire, Life Safety and Environmental Improvements R & T Building—Metropolitan State Hospital. Reduce Item 4440-301-036(6) by $259,000.*** Recommend deletion because this project should be deferred until the department has completed a report on the future of the state hospital system. 858
5. ***Fire and Life Safety-Handicapped Accessibility and Enclose Porches, N Building—Patton State Hospital. Reduce Item 4440-301-036(8) by $10,000.*** Recommend reduction because the department should not enclose the porches of the N Building as proposed. Withhold recommendation on the balance of funds requested, pending receipt of an OSA cost estimate. 860
6. ***Minor Projects. Reduce Item 4440-301-036(1) by $644,000.*** Recommend deletion of funds for nine projects which are not justified. 860
7. Construction Costs. Recommend that the amounts approved for construction under this item be reduced by 3 percent to eliminate overbudgeting of construction costs. 861

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes a total of $26,362,000 from the General Fund, Special Acount for Capital Outlay (SAFCO), for seven major capital outlay projects and 13 minor projects for the Department of Mental Health. The department's request and our recommendations are discussed below.

A. PROJECTS FOR WHICH RECOMMENDATION IS WITHHELD

We withhold recommendation on Items 4440-301-036(4), (5) and (7) for projects at Metropolitan and Patton State Hospitals, pending receipt of additional information from the department and the Office of State Architect.

We withhold recommendation on $14,317,000 requested for three major capital outlay projects for the Department of Mental Health. These projects and our reasons for withholding recommendation on each are summarized in Table 1.

Table 1
Department of Mental Health
1985–86 Major Capital Outlay
Projects For Which the Legislative Analyst is Withholding Recommendation
Item 4440-301-036
(dollars in thousands)

Subitem	*Project Title*	*Hospital*	*Phase* [a]	*Budget Bill Amount*	*Estimated Future Cost* [b]	*Reasons for Withholding Recommendation*
(4)	Fire/Life Safety and Environmental Improvements, CTW Building	Metropolitan	c	$11,105	—	Pending receipt of (1) revised preliminary plans, (2) a revised study comparing the life-cycle costs of comfort conditioning and refrigerated air-conditioning, and (3) the status of the cogeneration project at Metropolitan.
(5)	Upgrade Electrical Distribution System	Metropolitan	c	2,011	—	Pending receipt of preliminary plans and OSA's revised cost estimate.
(7)	Fire/Life Safety and Environmental Improvements, U Building	Patton	wc	1,201	—	Pending receipt of preliminary plans and OSA's revised cost estimate.
	Totals			$14,317	—	

[a] Phase symbols indicate: w=working drawings; and c=construction.
[b] Department estimate.

We urge the department and the Office of State Architect (OSA) to submit the information needed for these projects so that the Legislature has sufficient information to permit meaningful consideration of their funding requirements.

B. RECOMMENDED REDUCTIONS/DELETIONS

The budget includes $11,087,000 for four major capital outlay projects which we recommend be reduced or deleted. These projects are summarized in Table 2 and are discussed individually below.

Table 2
Department of Mental Health
1985–86 Major Capital Outlay
Legislative Analyst's Recommended Changes
(dollars in thousands)

Sub-item	Project Title	Hospital	Phase[a]	Budget Bill Amount	Analyst's Recommendation	Estimated Future Cost[b]
(2)	Install Modular Office Buildings	Atascadero	pw	$275	—	$2,238
(3)	Heating and Air Conditioning of Patient Occupied Buildings	Atascadero	c	9,895	$9,703	—
(6)	Fire/Life Safety and Environmental Improvements, R&T Building	Metropolitan	w	259	—	2,924
(8)	Fire/Life Safety, Handicapped Accessibility and Enclose Porches, N Building	Patton	pw	658	pending	3,700
	Totals			$11,087	pending	$8,862

[a] Phase symbols indicate: p = preliminary planning; w = working drawings; and c = construction.
[b] Department estimate.

Install Modular Office Buildings—Atascadero State Hospital

We recommend deletion of Item 4440-301-036(2) because the Legislature has previously deleted funds for this project and the department has not presented any additional information to justify reconsideration, for a savings of $275,000. (Future savings: $2,238,000)

The budget includes $275,000 for preliminary plans and working drawings to install nine prefabricated modular buildings at Atascadero State Hospital. These modular buildings would be used as patient treatment activity centers and would provide approximately 17,000 square feet of office space for staff. The space currently used for this purpose would be converted into patient bed space, thereby providing the hospital with 128 beds of additional capacity. The department indicates that the hospital has been cited for overcrowding patients.

Funds for this project were included in the Governor's 1984–85 Budget. The Legislature however, deleted this project on the basis that the increased maintenance costs associated with modular units resulted in modular buildings being more expensive than permanent facilities on a life-cycle cost basis.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

The department's proposal for the budget year contains no new information to indicate that this project should be reconsidered by the Legislature. Moreover, the department indicates that in 1986–87 it intends to request a major remodeling project which will *reduce* capacity at Atascadero by 144 beds and create space in each unit for patient treatment activities. Consequently, the proposal to construct modular buildings to provide increased bed capacity and patient treatment activity space appears to run counter to the department's future plans for this hospital.

For these reasons, we recommend that the preliminary plan/working drawing funds for modular buildings at Atascadero be deleted, for a savings of $275,000.

Heating and Air Conditioning of Patient Occupied Buildings—Atascadero State Hospital

We recommend that Item 4440-301-036(3) be reduced by $192,000 to correct for overbudgeting.

The budget requests $9,895,000 for construction to install air conditioning and heating for patient-occupied buildings at Atascadero State Hospital. The project will provide for the installation of a central chiller plant, cooling tower, chilled water piping and modification of the building ventilation/heating system.

Preliminary plans for this project were completed in 1981, at a cost of $308,000. The Legislature provided $535,000 in the 1984 Budget Act for preparation of working drawings. The Office of State Architect's project schedule shows completion of the working drawings by July 1985.

The proposed project is consistent with prior legislative approval and the project should proceed. The amount included in the budget however, is overstated. Based on the budget as approved by the Legislature in 1984, adjusted for inflation, this item should include $9,703,000, rather than the proposed $9,895,000. This adjustment reflects the current expected inflationary increase of about ½ percent per month.

We therefore recommend that this item be approved in the amount of $9,703,000 for a savings of $192,000.

Fire and Life Safety and Environmental Improvements, R&T Building—Metropolitan State Hospital

We recommend that Item 4440-301-036(6) for working drawings to remodel the R&T Building at Metropolitan State Hospital, be deleted because the project should be deferred until the department has completed a report on the future of the state hospital system.

The budget proposes $259,000 to prepare working drawings for fire/life safety and environmental improvements for the Receiving and Treatment (R&T) Building at Metropolitan State Hospital. Six units in this building would be remodeled to provide patient privacy in bedrooms and restrooms, provide handicapped access, and bring the units into compliance with existing codes for fire and life safety. The project would also remodel the existing air conditioning system and install security screens on the windows. The estimated future cost of the project is $2,924,000.

Statewide Study Needed. In our analysis of the support/operations budget of the state hospitals (please see page 820), we discuss the reasons why a full-scale review of the state hospital system is needed. Such a review is particularly appropriate at this time in light of the increasing cost incurred per-client to operate the 11 hospitals statewide. During the past 7 years, the population in state hospitals has decreased by 15 percent. Moreover, the department expects this population to decline another 5 percent by the end of the budget year, leaving 11,551 clients in the state hospital system by June 30, 1986. In contrast, there would be 12,586 beds in the hospital system if all remodeling projects planned by the departments are approved—1,035 more beds than the projected number of clients (6,750 DD clients/7,443 beds; 4,801 MD clients/5,143 beds).

The downward trend of population raises questions such as (1) how many state hospital beds will be needed in the future, (2) should some state hospitals be closed, and (3) are there facilities that have been remodeled for the developmentally disabled that could be used for mentally disabled clients. To help the Legislature find answers to these questions, we have recommended that the department submit a report to the Legislature by November 1, 1985 on the future of the state hospital system. The results of this study could mitigate the need to remodel the R&T Building at Metropolitan State Hospital.

Improvements at Metropolitan State Hospital. To date, facilities with a total of 508 beds have been or currently are being remodeled at Metropolitan State Hospital. In addition, the budget includes $11,105,000 under Item 4440-301-036(4) to remodel 376 beds in the CTW Unit. Completion of these projects would provide 884 beds at Metropolitan State Hospital.

We believe a commitment to remodel this number of beds in the budget year is appropriate, for several reasons. *First,* the facilities do not meet fire/life safety codes or environmental standards, and therefore should be remodeled *if* they are to be occupied for several years after the remodeling work is complete. *Second,* a reduction in the state hospital system would be a long-term plan and the 884 beds at Metropolitan will, in all likelihood, either be needed for the long-term or could be among the last to be phased out.

Remodeling of the R&T Building however, is another matter. The design and construction work to remodel this building will not be completed before July 1987. It is not clear that the building will (or should) be occupied for long enough beyond that date to warrant the proposed alterations. Based on the department's most recent population estimates, there are currently 929 clients at Metropolitan. The remodeled space for 884 beds (without the R&T Building) therefore, should be sufficient during fiscal year 1986–87. In fact, in 1979 the department canceled a similar remodeling project for this building on the basis that the building would not be needed and therefore could be vacated and this portion of the hospital sold as surplus property. Given the current population and the availability of remodeled beds—both at this hospital and statewide—a study of the state hospital system might reach the same conclusion.

Consequently, we recommend deferral of the working drawing funds to remodel the R&T Building, for a reduction of $259,000.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

Fire and Life Safety, Handicapped Accessibility and Enclose Porches, N Building—Patton State Hospital

We recommend that Item 4440-301-036(8) be reduced by $10,000 because the department should not enclose the porches of the N Building (Future Savings: $240,000). We withhold recommendation on the balance of funds requested pending receipt of an OSA cost estimate.

The budget includes $658,000 under Item 4440-301-036(8) for preliminary plans and working drawings to remodel the N Building at Patton State Hospital. The work includes correction of fire and life safety and handicapped code deficiencies. In addition, the project would enclose the porches on the N Building, in order to allow these areas to be used more frequently, especially during inclement weather. The department estimates that the future cost for construction of this project is $3,700,000.

The fire/life safety and handicapped compliance work proposed under this project is justified and should proceed. The department, however, should not proceed with that portion of the project which would provide for permanent enclosure of, and installation of new lighting and ventilation systems, in the porch areas. At the present time these screened porch areas supplement the day room activity space available in the N Building.

Our analysis suggests that because the weather conditions in Southern California are quite favorable, the benefits to be derived by enclosing the porch areas are minor relative to what the improvements would cost (approximately $250,000). Most of the time these areas can continue to be used as an extension of the dayrooms. Moreover, when the $1.7 million security improvements to the east campus (funded in the 1984 Budget Act) and the U Building alterations (proposed in the budget) are completed, the population of the N Building will be reduced substantially. This will alleviate the demand for dayroom space in the N Building.

For these reasons, we recommend that this item be reduced by $10,000 in order to eliminate funding for preliminary plans and working drawings to enclose the porches of the N Building.

The remaining work proposed under this project is justified. However, we have not received a cost estimate from the Office of State Architect. Consequently, we withhold recommendation on funds requested for this portion of the work, pending receipt of the necessary information.

C. MINOR CAPITAL OUTLAY

We recommend that Item 4440-301-036(1) be reduced by $644,000 to eliminate funding for nine projects which are not justified.

The budget proposes $958,000 for 13 minor capital outlay projects ($200,000 or less per project) for the Department of Mental Health. Table 3 summarizes this program by category and provides our recommendation for each category.

Table 3
Department of Mental Health
1985–86 Minor Capital Outlay Program
(dollars in thousands)

	Budget Bill		Analyst's Recommendation	
Category	*Number of Projects*	*Amount*	*Number of Projects*	*Amount*
Health and Safety	2	$74	1	$44
Site Improvements	8	547	3	270
Energy Conservation	3	337	—	—
Totals	13	$958	4	$314

We recommend deletion of $644,000 requested for nine minor capital outlay projects. These projects range in cost from $21,000 to install evaporative coolers in the G Building (Protestant and Catholic Chapel) at Patton State Hospital to $199,000 for upgrading a chiller in the EB Building at Patton State Hospital. We have recommended that these nine projects be deleted for one or more of the following reasons:

- The project is of a special repair nature.
- The work proposed can be accomplished in a less costly manner.
- The department has not demonstrated that the project is cost-effective.
- The project request is premature because another project should be completed first.
- The department has not submitted adequate information to justify either the work to be done or the deficiencies to be corrected.

Overbudgeted Construction Funds

We recommend that the amounts approved for construction in Item 4440-301-036 be reduced by 3 percent to eliminate overbudgeting of construction costs.

The Governor's Budget requests $14,112,000 (excluding Item 4440-301-036(3)) for the construction phase of capital outlay projects in 1985–86. These amounts are based on what the construction cost index is expected to be on July 1, 1985. At the time the index was projected for the budget year, the projected level was reasonable. Inflation, however, has not increased as anticipated. Using the most recent indices, adjusted by the currently expected inflationary rate 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

EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 5100 from the General Fund and various funds — Budget p. HW 126

Requested 1985–86	$110,847,000
Estimated 1984–85	130,756,000
Actual 1983–84	118,821,000
Requested decrease (excluding amount for salary increases) $19,909,000 (−15.2 percent)	
Total recommended reduction	20,641,000
Recommendation pending	80,640,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5100-001-001—EDD, support	General	$33,259,000
5100-001-184—EDD, support	Benefit Audit	2,439,000
5100-001-185—EDD, support	Contingent	14,660,000
5100-001-514—EDD, support	Employment Training	60,489,000
5100-001-588—EDD, support	Unemployment Compensation—Disability Insurance	(53,975,000)
5100-001-870—EDD, support	Unemployment Administration	(287,689,000)
5100-001-908—EDD, support	School Employees	(553,000)
5100-001-932—EDD, support	Local Public Entity Employees	(279,000)
5100-001-979—EDD, support	Consolidated Work program	(80,640,000)
5100-011-890—EDD, support	Federal Trust	(287,689,000)
5100-021-890—EDD, support	Federal Trust	(80,640,000)
5100-101-588—EDD, local assistance	Unemployment Compensation—Disability Insurance	(1,027,600,000)
5100-101-871—EDD, local assistance	Unemployment Administration	(1,000,000)
5100-101-871—EDD, local assistance	Unemployment	(1,661,000,000)
5100-101-890—EDD, local assistance	Federal Trust	(236,806,000)
5100-101-908—EDD, local assistance	School Employees	(29,821,000)
5100-101-932—EDD, local assistance	Local Public Entity Employees	(4,092,000)
5100-101-970—EDD, local assistance	Consolidated Work program	(236,806,000)
5100-111-890—EDD, local assistance	Federal Trust	(1,662,000,000)
Total		$110,847,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Employment Development Department's Position Reductions.
   - Recommend the department submit to the fiscal committees information (a) identifying its proposed position and related dollar reductions so that the Legislature can understand the department's overall proposal and (b) clarifying specific proposals to reduce Employment Development Department (EDD) staff. 870
   - Further recommend adoption of Budget Bill language 877

prohibiting EDD from reducing services to the unemployed in order to generate funds for permanent positions that are proposed for elimination.

2. Job Service Staff Reductions. Recommend that 26.9 positions proposed for deletion be restored in order to maximize the amount of local services supplied to unemployed individuals under the Job Service program. 878
3. Operating Expenses. Recommend EDD submit a revised schedule of operating expenses and equipment to the fiscal committees. 879
4. ***Technical Budgeting Recommendations. Reduce Item 5100-001-001 by $744,000; Item 5100-001-185 by $287,000; Item 5100-001-588 by $1,290,000; and Item 5100-001-870 by $5,645,000).*** Recommend reduction of $7,966,000 in departmental support to correct for technical budgeting errors. 879
5. ***Federal Funds. Reduce Item 5100-001-185 by $4,702,000 and increase Item 5100-001-870 by $4,702,000.*** Recommend that $4.7 million in available federal funds be used in lieu of a like amount from the EDD Contingent Fund for support of the Unemployment Insurance and Job Service programs. 880
6. Unemployment Insurance (UI). Recommend that EDD report on the costs and benefits of various options available to the state for providing UI benefits to employees of local public entities. 881
7. ***EDD Automation Activities. Reduce Item 5100-001-185 by $7,704,000 and increase Item 5100-001-870 by $2,683,000.*** We recommend:
   a. The department inform the fiscal committees of the proposed amount and source of staff support budgeted for EDD's automation activities in 1985–86, 884
   b. Transfer $100,000 to the State Office of Information Technology to support full-time oversight of EDD's automation projects, 885
   c. Deletion of $2,241,000 proposed for extension of Job Service Order Sharing (JSOS), 887
   d. Adoption of Budget Bill language requiring EDD to delay further implementation of JSOS, pending the submission of a report to the Legislature, 887
   e. Deletion of $2,780,000 proposed for the automation of the UI program, 890
   f. Adoption of Budget Bill language delaying implementation of the UI design, pending submission of a report on alternate automation designs, and 890
   g. Using $2,683,000 from the federal Reed Act account in lieu of a like amount from the EDD Contingent Fund in order to make additional state funds available for funding the Legislature's priorities. 893
8. ***Contingent Funds. Reduce Item 5100-001-001 by $18,320,000 and increase Item 5100-001-185 by $18,320,000.*** Recommend $18.3 million from the EDD Contingent Fund be used in lieu of a like amount from the General Fund to support EDD's activities, so as to increase the Legislature's fiscal flexibility. 894

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

9. Job Training Partnership Act (JTPA).
   - Withhold recommendation on $80.6 million in JTPA funds pending the receipt of a budget proposal for 1985–86 that is approved by the Job Training Coordinating Council. 895
   - Recommend EDD and the council report to the fiscal committees on its plan to achieve the state's goals for the JTPA in 1985–86. 897

GENERAL PROGRAM STATEMENT

The Employment Development Department (EDD) is responsible for administering the Job Service program, the Unemployment Insurance (UI) program, and the Disability Insurance (DI) program. The Job Service program (1) refers qualified applicants to potential employers, (2) places job-ready applicants in jobs, and (3) helps youth, welfare recipients, and economically disadvantaged persons find jobs or prepare themselves for employment by participating in employment and training programs.

In addition, the department collects taxes and pays benefits under the UI and DI programs. The department collects from employers (1) their unemployment insurance contributions and (2) employee contributions for DI. It also collects personal income tax withholdings. In addition, it pays UI and DI benefits to eligible claimants.

The Budget Act authorized 11,893.8 positions in EDD for the current year. The department, however, administratively reduced the number of positions by 275.6, due to decreases for UI benefit programs, bringing the total number of positions in 1984–85 to 11,618.2.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $110,847,000 from various *state* funds for support of EDD in 1985–86. This is a decrease of $19,909,000, or 15 percent, from estimated current-year expenditures. This reduction is primarily due to the fact that $19,460,000 in special fund support for the Employment Training Panel (ETP) programs carried over from the prior to the current year will not be available in the budget year.

The reduction in state funds for support of EDD will be offset to some extent by the amount of any salary or staff benefits approved for the budget year.

General Fund Request

The budget proposes an appropriation of $33,259,000 from the General Fund to support the EDD in 1985–86. This represents a net decrease of $4,457,000, or 12 percent, below estimated current-year expenditures. Table 1 identifies the significant changes in General Fund expenditure levels proposed for 1985–86. Several of these proposals are discussed later in this analysis.

The budget proposal does not include any funds for the estimated cost of merit salary increases in 1985–86 or inflation adjustments for operating expenses and equipment ($667,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Table 1
Employment Development Department
Proposed General Fund Budget Changes
1985–86
(dollars in thousands)

	Adjustment	*Totals*
1984–85 expenditures (revised)		$37,716
A. Cost changes		
1. Increase in existing personnel costs	$354	
2. Collective bargaining costs—DPA	6	
3. One-time expenditures (Employment Preparation program—Ch 832/82)	−25	
4. Termination of CWETA	−376	
Subtotal		−$41
B. Program changes		
1. Employment and employment-related services		
a. Transfer of Work Incentive program	−2,719	
b. Termination of funding for business, labor, education, and training councils	−1,079	
2. Cost reduction in collecting the personal income tax	−618	
Subtotal		−$4,416
1985–86 expenditures (proposed)		$33,259
Change from 1984–85:		
Amount		−$4,457
Percent		−11.8

Total Revenues and Expenditures

Table 2 details the department's total revenues and expenditures, by program. As the table shows, the budget projects total expenditures of $3.5 billion in 1985–86. This is a decrease of $346.5 million, or 8.9 percent, below the current-year level.

Of the $3.5 billion, $805 million (23 percent) is for various programs and administration, and $2.7 billion (77 percent) is for the payment of Unemployment Insurance (UI) and Disability Insurance (DI) benefits.

The $805 million proposed for programs and administration is $47.9 million, or 5.6 percent, below current-year expenditures. This reduction is due to (1) a $19.5 million reduction in the amount of funds available to the Employment Training Panel because funds carried over from the prior to the current year will not be available in the budget year and (2) a $12.0 million reduction in support for the administration of the UI program. Partially offsetting these reductions are the following increases: (1) a $5.4 million increase in federal support to the Employment Service program and (2) a $3.6 million increase in support for the Job Training Partnership Act (JTPA).

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 2
Employment Development Department
Expenditures and Revenues, by Program
All Funds
1983–84 through 1985–86
(dollars in thousands)

	Actual 1983–84	*Estimated 1984–85*	*Proposed 1985–86*	*Change 1984-85 to 1985-86 Amount*	*Percent*
Employment Programs					
Employment Service	$101,071	$101,715	$102,973	$1,258	1.2%
Work Incentive (WIN) Program	39,848	34,861	24,615	−10,246	−29.4
Food Stamp Recipients	2,738	4,960	3,264	−1,696	−34.2
Service Centers	6,385	6,364	6,504	140	2.2
Job Agent	2,428	2,681	2,737	56	2.1
California Worksite Education and Training Act (CWETA)	1,270	376	—	−376	−100.0
Youth Employment	1,161	1,178	1,202	24	2.0
Employment Preparation	8,105	9,129	9,376	247	2.7
Employment Training Panel	52,508	78,327	58,867	−19,460	−24.8
Comprehensive Employment and Training Act (CETA)	14,838	—	—	—	NA
Business-Labor Councils	—	1,076	42	−1,034	−96.1
Contracts with Service Delivery Area	9,963	6,287	—	−6,287	−100.0
Job Training Partnership Act:	(133,459)	(313,807)	(317,446)	(3,639)	(1.2)
Adult and Youth Training	96,531	161,434	161,434	—	—
Summer Youth	10,173	75,372	75,372	—	—
Displaced Workers	10,057	30,220	31,726	1,506	5.0
Educational Linkages	5,366	16,562	17,389	827	5.0
Governor's Discretionary	—	—	1,557	1,557	NA
Administrative	5,854	10,804	9,601	−1,203	−11.1
Older Worker Training	1,528	6,209	6,519	310	5.0
Veteran's Programs	—	762	800	38	0.3
Technical Assistance	3,950	12,444	13,048	604	4.9
Totals, Employment Programs	$373,774	$560,761	$527,026	−$33,735	−6.0%
Unemployment Insurance (UI)	($2,569,537)	($2,242,742)	($1,897,558)	(−345,184)	(−15.4)
Administration	217,229	213,646	201,645	−12,001	−5.6
Benefits	2,352,308	2,029,096	1,695,913	−333,183	−16.4
Disability Insurance (DI)	(897,157)	(1,048,077)	(1,082,144)	(34,067)	(3.3)
Administration	49,155	56,077	54,544	−1,533	−2.7
Benefits	848,002	992,000	1,027,600	35,600	3.6
Former Inmates Program	(1,452)	(970)	—	(−970)	(−100.0)
Administration	188	—	—	—	NA
Benefits	1,264	970	—	−970	−100.0
Personal Income Tax	16,601	19,059	18,992	−67	−0.4
Employment Training Tax	1,430	1,597	1,622	25	1.6
General Administration	(32,681)	(33,309)	(31,612)	(−1,697)	(−5.1)
Distributed	(31,603)	(31,728)	(29,955)	(−1,973)	(−5.6)
Undistributed	1,078	1,581	1,657	76	4.8
Unallocated General Fund Reduction	—	—	−667	−667	NA
Total Budget	$3,861,029	$3,874,787	$3,528,332	−$346,455	−8.9%
Totals, Program	659,455	852,721	804,819	−47,902	−5.6%
Totals, UI and DI Benefits	3,201,574	3,022,066	2,723,513	−298,553	−9.9%
Revenue					
General Fund	$36,306	$37,716	$33,259	−$4,457	−11.8
Disability Insurance Fund	894,426	1,047,520	1,081,575	34,055	3.3
EDD Contingent Fund	28,577	12,056	14,660	2,604	21.6
Employment Training Fund	53,938	79,924	60,489	−19,435	−24.3
School Employees Fund	32,080	28,093	30,374	2,281	8.1
Local Public Entity Employees Fund	4,316	3,934	4,371	437	11.1
Federal Unemployment Fund	2,282,359	1,994,000	1,661,000	−333,000	−16.7
Federal Unemployment Administration Fund	373,621	321,682	288,689	−32,993	−10.3
Federal Trust Fund	133,459	313,807	317,446	3,639	1.2
Benefit Audit Fund	—	1,060	2,439	1,379	130.1
Reimbursements	21,947	34,995	34,030	−965	−2.8
Totals	$3,861,029	$3,874,787	$3,528,332	−$346,455	−8.9%

We recommend approval of the following significant budget changes which are not discussed elsewhere in this analysis:

- A reduction of $2,719,000 reflecting the transfer of the Work Incentive program from EDD to the Department of Social Services.
- A reduction of $1,079,000 reflecting the termination of funding for business, labor, education, and training councils.
- An increase of $354,000 in personnel costs in order to provide the full-year cost of the 3 percent salary increase provided to specified clerical employees.
- A reduction of $376,000 due to the termination of the California Worksite Education and Training Act (CWETA). This amount represents the cost of training contracts that carried over into 1984–85 and will not occur in 1985–86.

ANALYSIS AND RECOMMENDATIONS

DEPARTMENTAL SUPPORT

Department Proposes Massive Position Reductions

The EDD proposes to abolish 1,366.6 positions in 1985–86. When these proposed reductions are added to the 282.6 positions which the department deleted administratively in 1984–85, the total number of positions that would be eliminated becomes 1,649.2. These reductions are partially offset by a proposed increase of 21.4 positions, bringing the total number of positions proposed for EDD to 10,266.0.

The reduction in EDD's authorized positions during 1984–85 resulted from language adopted by the Legislature in the 1984 Budget Act. This language required a review of EDD's staffing needs in administering the Unemployment Insurance (UI) and Disability Insurance (DI) programs.

Overview of Our Analysis

Due to the unusually large number of positions proposed for elimination, it was simply impossible for us to determine the effect of eliminating each and every individual position. Recognizing this, we adopted a strategy for reviewing the EDD's proposed reductions that was intended:

- To ensure that the proposed position reductions could legitimately be attributed to an anticipated reduction in funding or caseload. Where positions were proposed to be deleted for other reasons, we determined the reasons behind the reduction;
- To determine whether the proposed reductions were accompanied by all of the information that the Legislature needs in order to evaluate the merits of the reductions. Where such information was lacking, we identified what additional information the EDD should submit;
- To ensure that the budget is internally consistent—that is, that the proposals eliminate the appropriate number of positions or amount of funds given the workload or funding reduction anticipated;
- To increase the Legislature's fiscal flexibility by insuring that EDD first uses the most-restricted funds to support a specified activity and that less-restricted funds remain available to fund the Legislature's priorities.
- To identify additional controls that the Legislature needs in order to ensure that EDD implements the staff reductions as approved by the Legislature.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

The department's proposed position reductions are contained in 54 budget change proposals. In a number of cases, we determined that the proposed reductions were justified. In other cases, the department did not provide enough information to evaluate the proposed position reductions. In some cases, our review led us to conclude that the positions should be restored. As a result of this review, we:

- Recommend approval of proposals to eliminate 1,062 positions from EDD's support budget, due to administrative efficiencies, the expiration of programs, declining UI program caseload, and transfers of program responsibilities to other state departments;
- Withhold recommendation on 560 positions proposed for deletion because EDD did not provide sufficient information needed by the Legislature to determine whether the reductions are justified;
- Recommend restoring 26.9 positions to provide services to those needing help in finding jobs;
- Recommend reduction of $7.1 million and 48.4 positions in order to correctly reflect the full effect of the department's own proposed position reductions.
- Recommend adoption of Budget Bill language so that EDD cannot further reduce services to unemployed individuals as a means of achieving whatever reductions in positions are approved by the Legislature.

Budget Figures Are Internally Inconsistent

During our review of EDD's budget, we could not independently verify how many positions were being proposed for elimination. The budget proposes to eliminate 1,649.2 positions from EDD's 1984–85 budgeted level of support. The department's supporting documents, however, indicate that a total of 1,645.5 positions are proposed for deletion. Our analysis indicates that 1,635.6 positions are proposed for elimination.

The department could not indicate the reasons for the differences in the three estimates. Given these estimates, we cannot advise the Legislature as to the exact number of positions the department is proposing to eliminate.

For the purposes of this analysis, we have used *our* estimate of the number of positions being reduced, which is 1,635.6 positions. This estimate is based on the budget change proposals submitted in support of the budget and the 1984–85 midyear caseload revision provided by EDD.

Proposed Reductions Reflect Many Factors

Table 3 divides EDD's proposed position reductions into six categories, depending on the reason for the reduction in staffing. In addition to showing the number of positions that are proposed for deletion, Table 3 lists the salaries, benefits, and operating expenses that would be eliminated as a result of the staff reductions.

The six categories into which the staff reductions are divided are discussed below:

- *Administrative Efficiences.* The budget proposes to eliminate 145.5 positions as the result of streamlining the department's operations. These reductions would create $3.7 million in savings from various funds. Of the 145.5 positions, 82.7 will result from efficiencies in the way EDD collects tax withholdings from employers. Another 45.8 positions will be eliminated because EDD believes that these administrative positions are no longer needed, given the large reduction in field office staff.

Table 3
Employment Development Department
Proposed Position Reductions
1985–86
(dollars in thousands)

Reason for Reduction	Number of Positions	Dollar Reductions Salary	Benefits	Operating Expenses	Total
Administrative efficiencies	−145.5	−$2,796	−$924	$14	−$3,706
Automation	−163.3	−2,772	−922	2,124	−1,570
Discretionary service reductions	−324.5	−6,221	−773	−8,408	−15,402
Program terminations	−291.7	−5,308	−1,731	−1,337	−8,376
Declining caseload	−423.3	−7,480	−2,498	−969	−10,947
Program transfers	−287.3	−8,819	−3,111	−3,009	−14,939
Totals	−1,635.6	−$33,396	−$9,959	−$11,585	−$54,940

- ***Automation.*** The department proposes to reduce its staff by 163.3 positions in order to reflect efficiencies created by automation. Because of increased costs of operating the automated systems, however, these reductions in staff generate only $1.57 million in savings.
- ***Discretionary Service Reductions.*** Staff reductions attributable to a decision by the department to reduce the level of services provided, account for 324.5, or 20 percent, of EDD's proposed personnel reductions. The largest reduction in this group is the 93.1-position cut in staffing for the Job Service Program. Instead of continuing these positions, EDD proposes to contract with local Job Training Partnership Act (JTPA) programs for the provision of specified job services. Also included in the discretionary service reduction category is (1) a 31.1-position reduction in staffing for the collection of employer and occupational data, (2) elimination of 52 positions currently budgeted to provide services for local JTPA programs, and (3) elimination of 12 positions that currently are administering employment and training services to residents in the Century Freeway corridor.
- ***Program Terminations.*** Expiring federal programs account for 291.7 positions, or 18 percent, of those proposed for elimination. The programs that EDD believes will expire are (1) the Federal Supplemental Compensation (FSC) program and (2) the Trade Adjustment Act.
- ***Declining Caseloads.*** Declining caseloads in the UI program account for the reduction of 423.3 positions, or 26 percent of the total. Included in this group are 240.1 positions in the UI program to be deleted during the current year, due to lower-than-anticipated unemployment in California.
- ***Program Transfers.*** Transfer of program responsibilities to other departments accounts for 287.3, or 18 percent of EDD's planned position reductions. The transfer of responsibility for the Work Incentive (WIN) program to the Department of Social Services, pursuant to enactment of recent state legislation, accounts for the reduction of 186.4 positions.

Table 4 shows how the staff reductions are distributed among EDD's

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

programs. As the table indicates, position reductions fall heaviest on the UI and Employment Services programs. The proposed reductions of 745.6 UI positions accounts for 46 percent of the department's total reduction. The reductions to UI staffing levels are the result of terminating federal programs (234.1 positions) and falling caseloads (423.3 positions) caused by an expected drop in unemployment within California. In contrast, the cuts for staff to the Employment Services program result largely from the discretionary reduction in services proposed by the department. These discretionary reductions account for 248.0 positions, or 81 percent, of the reductions proposed in that program.

Table 4

Employment Development Department Programs Affected by Proposed Position Reductions 1985–86

Source of Reduction	*Administration*	*Unemployment Insurance*	*Disability Insurance*	*Employment Service*	*Tax Collection*	*Other Employment Programs*	*Total*
Administrative efficiencies	50.8[a]	—	—	—	82.7	12.0	145.5
Automation	—	60.1	103.2	—	—	—	163.3
Discretionary service reductions	7.6	28.1	34.0	248.0	—	6.8	324.5
Program terminations	—	234.1	—	57.6	—	—	291.7
Declining caseload	—	423.3	—	—	—	—	423.3
Program transfers	—	—	—	—	28.5	258.8	287.3
Totals	58.4	745.6	137.2	305.6	111.2	277.6	1,635.6

[a] Twenty-seven positions that should be included in this category are distributed in other categories.

The Legislature Has Not Been Given the Information It Needs on the Position Reductions

We recommend that prior to budget hearings, EDD:

1. Reconcile the budget's estimate of total positions to be eliminated with the supporting documentation the department has submitted in order to eliminate the inconsistencies that now exist (discussed above); and

2. Submit to the fiscal committees specified information needed to permit a meaningful evaluation of the proposed reductions.

The EDD's budget submission consists of 54 separate proposals to reduce positions. In many cases, the proposals provide sufficient information so that the Legislature can evaluate the merits of the reduction. In the case of other proposals—accounting for 560 positions, or about one-third of the positions proposed for elimination—the information needed by the Legislature in order to determine whether the reduction is justified, was lacking. We discuss these deficiencies in the department's budget proposal below.

Administrative Efficiencies Need Clarification. The department proposes to reduce support for its administrative services by a total of 72 positions. (Of these positions, only 45 are identified as administrative efficiencies in Table 4. The remaining 27 positions show up as reductions in other categories.) Administrative services include personnel, payroll, fiscal, and data processing services needed by all EDD programs.

Since the department made its original proposal to reduce administrative services staffing, the department has amended its proposal significantly. Originally, for instance, the proposal involved 89 administrative positions. Subsequently, EDD restored 31 of these positions and proposed to eliminate an additional 14 positions. As a result, the Legislature has not been given (1) information on the savings that would result from these reductions, (2) a description of the classification and duties for the positions proposed for elimination, or (3) a workload analysis indicating that remaining staff can perform the work required of these divisions.

Without this information, we cannot recommend approval of the position reductions at this time. Accordingly, we recommend that EDD submit to the fiscal committees the following information concerning its proposal to eliminate 72 administrative services positions: (1) the savings, by fund source, resulting from these reductions, (2) the classifications and duties of the positions proposed for elimination, and (3) workload statistics documenting that the remaining staff can accomplish the workload necessary to operate the department effectively.

Benefits From DI Automation Need to Be Documented. Among the department's proposed reductions is a proposal to eliminate 35.0 positions in the DI program that will not be needed due to automation of the checkwriting function. The automation of the DI checkwriting function, however, is still in the planning stage. In fact, at the time we prepared this analysis, EDD had not completed a feasibility study report (FSR) for the project. Without an FSR, we are not able to compare the costs and benefits of the project, and thereby substantiate the estimates included in the budget.

Lacking this information we cannot recommend approval of the position reductions at this time. Accordingly, we recommend that EDD submit to the fiscal committees (1) a copy of the FSR for this project, (2) an identification of the costs incurred in developing and implementing the project in 1984–85 and 1985–86, and (3) a schedule identifying the number of positions and dollar savings that the automation project would achieve in 1985–86, 1986–87, and 1987–88.

Benefits from UI Automation Not Clear. The budget proposes to eliminate 59.1 positions from the UI program that will not be needed due to automation of UI activities. According to EDD, this is the first installment on a total reduction in UI staff of 300 to 400 positions, due to automation. We could not ascertain from the FSR for the UI automation project how the department came up with 59.1 positions as the appropriate reduction for 1985–86.

The department advises that the savings from these staff cuts will *not* offset the increased costs of operating the automated system in the budget year. According to EDD, the $1.6 million savings resulting from the elimination of 59.1 positions falls $227,000 short of covering the additional costs of the system. One reason for the shortfall is that the budget assumes an average salary for the 59.1 positions of $18,900 a year—$16,000, or 46 percent, below the estimated savings per position claimed in the FSR for the UI automation project. The EDD's response to this apparent discrepancy is that the first stages of automation initially reduce the need for relatively inexpensive field office staff. As the project continues, however, EDD maintains that higher-salary positions will be abolished, thereby increasing the average savings per position from the UI project. The department, however, has not provided an estimate of the savings resulting from UI automation in future years.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Given the unanswered questions regarding this project, we cannot recommend approval of the proposed position reductions at this time. Accordingly, we recommend that EDD submit to the fiscal committees (1) justification for the method used to determine that 59.1 positions is the appropriate staff reduction to the budget for UI automation in 1984–85 and 1985–86, (2) a schedule of the cost and average savings per position that the Legislature can expect from the UI automation projects in 1985–86, 1986–87, and 1987–88, and (3) a narrative description of how these estimates tie to the estimates made in the UI FSRs.

Unemployment Rate Assumptions Differ from Those on Which the Rest of the Budget is Built. In preparing the Governor's Budget each year, the Department of Finance (DOF) develops a forecast of the California economy's performance during the next two years. This forecast contains a projection of California's unemployment rate in the budget year.

The EDD did not use DOF's estimates of the unemployment rate when projecting its UI program caseloads for the budget year. Instead, EDD, with the approval of the DOF, developed its own estimate of the unemployment rate. Table 5 compares EDD's estimates of the unemployment rate with DOF's. As the table shows, EDD's estimate of the unemployment rate in 1985–86, ranges from 2.9 percent to 7.8 percent *above* the DOF estimate. On an annual basis, EDD's estimate of the unemployment rate is 4.5 percent higher than the DOF estimate. Our analysis suggests that if UI caseloads were estimated using the DOF's estimate of unemployment, funding for UI administration would be 86.7 positions and $2.3 million less than the amount requested in the 1985–86 budget.

Table 5
Two Estimates of the Unemployment Rate
1985–86
(by quarter)

	1985–86				Annual
Source	*I*	*II*	*III*	*IV*	*Average*
Employment Development Department	7.1	7.0	7.0	7.0	7.0
Department of Finance	6.9	6.7	6.6	6.5	6.7
Difference	0.2	0.3	0.4	0.5	0.3
Percent Difference	2.9%	4.5%	6.1%	7.8%	4.5%

It seems obvious to us that the budget should be based on a single set of economic projections (even though a "reserve for economic uncertainties" needs to be created in case the projections prove to be too optimistic.) Consequently, we believe that, as the official projection of unemployment, the DOF estimate should serve as the basis for the UI administration request.

If the $2.3 million in overbudgeted UI support were derived from a state funding source, rather than from federal funds, we would recommend that the Legislature delete the funds from EDD's budget, as we have in our analysis of the Department of Social Services' budget below. Because overbudgeted federal funds provide the department with spending authority only, and since the department will revise its estimate of anticipated UI administrative funding in 1985–86 in May of this year, eliminating these funds from the EDD budget would serve no useful purpose.

Accordingly, we recommend that the department submit to the fiscal committees a revised budget for the administration of the UI program for

1985–86, based on the DOF's projection of the unemployment rate.

Terminating Participation in the Redwood Employee Protection Program. The budget proposes to terminate state administration of the Redwood Employee Protection program (REPP). The REPP provides UI benefits to employees of lumber companies who became unemployed due to the 1978 expansion of the Redwood National Park. Currently, EDD has $3.2 million and 20.1 positions budgeted in support of REPP activities. Under federal law, almost all program activities—accounting for 19.9 positions—will end on June 30, 1985. Therefore, termination of the state's role in the REPP would shift to the federal government responsibility for providing UI benefits to about 190 individuals, and permit the state to eliminate 0.2 positions and $500,000 from EDD's budget.

The EDD was unable to explain why it proposes to terminate state administration of the REPP. The only responsibility left for the department to perform would be to provide UI benefits to 190 recipients. Our analysis indicates that the workload associated with paying these individuals would require about 0.2 positions, or $6,000 in 1985–86.

Moreover, this issue raises a policy question that EDD has not addressed: under what conditions should the state voluntarily terminate its administrative responsibilities under the UI program? The state has administered the UI programs in California for many years. To perform this function, it has (1) field office personnel able to provide the unemployed with assistance in understanding their rights to UI benefits and (2) the administrative apparatus required to register, pay, and account for UI benefits. Shifting administrative responsibility from the state for UI programs to the federal government sacrifices the potential benefits that California residents derive from EDD's expertise.

Therefore, to provide the Legislature with its view on this matter, we recommend EDD submit to the fiscal committees an explanation of why EDD proposes to terminate its responsibility for administering REPP. In addition, we recommend that the department provide the fiscal committees with a policy statement indicating its view on the conditions under which the state should terminate or refuse responsibility for administering part of the UI program.

Reduction in DI Fraud Activities. The budget proposes to reduce from 42 to 14 the number of positions used to conduct unscheduled home visits in the DI program. The department uses unscheduled visits to make a preliminary assessment of whether an individual is fraudulently collecting DI benefits.

In defense of its proposal, the department advises that claimants cannot be disqualified on the basis of unscheduled visits; they can only be disqualified after a medical examination determines that they are able to work.

There are two problems with EDD's justification for the position reduction. First, the department was unable to advise us why 14 positions should be continued for unscheduled visits, in light of its assertion that these visits have no effect on benefit payments to clients. Second, we note that medical examinations often are conducted only after an unscheduled visit uncovers a potential case of fraud. The EDD maintains that a reduction in the number of unscheduled visits will not increase the amount of fraud that goes undetected. The department, however, could not provide us with a plan detailing how it proposes to identify potential cases of fraud in the DI program, once the number of unscheduled visits has been reduced. Without such a plan, we are unable to recommend approval of this proposal.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

In sum, we cannot determine whether EDD has too many or too few positions budgeted for DI unscheduled visits. Given the Legislature's commitment to preventing fraud in the DI program and the contradictions in the department's views regarding the effectiveness of unscheduled visits, we recommend that the department submit to the fiscal committees its plan to prevent fraud in the DI program. This plan should include the activities that EDD proposes to undertake in order to identify fraud. In addition, the plan should assess the value of unscheduled visits in terms of both fraud detection and fraud prevention.

EDD Proposes to Return Federal Funds. In its budget, EDD proposes to return to the federal government funds allocated to California. Specifically, the budget proposes to return $1.525 million in federal UI and Employment Services (ES) funds, as follows:

- $933,000 in ES support would be returned because (1) the collection of employer and occupational statistics would be reduced and (2) the Test Development Center, which designs and validates occupational evaluation tools for the Job Service program, would be eliminated. The department could not tell us why these federally funded activities were of no direct use to the state.
- $355,000 in UI funds would be returned because the Random Audit program would be terminated. This program is designed to determine the amount of erroneous UI payments and detect and measure the sources of fraud in the UI program. The department indicates that the sample size is too small to accurately pinpoint the sources of UI fraud.

We believe that both the collection of occupational and employer statistics and the Random UI Audit program yield substantial benefits to the state, as follows:

- ***Occupational Statistics Allow Local Employment and Training Programs to Target Their Activities More Effectively.*** Under the EDD proposal, the department will continue to collect occupational statistics for the state as a whole, but it will discontinue gathering occupational data on *local* industry patterns. As a result, EDD will issue a single assessment of occupational patterns for the entire state. A statewide assessment of occupational trends, however, will be of little use to employment program operators because occupational trends differ substantially from area to area. For example, the occupational trends—and employment needs—of a predominantly rural area will be very different than those prevailing in urban areas. As a result, deleting these positions—thereby eliminating regional assessments of occupational trends—will greatly reduce the value of this data.
- ***The Random UI Audit Provides Valuable Administrative Information for EDD.*** For instance, random audits indicate whether eligibility errors are caused by administrative mistakes, client error, or fraud. If administrative problems result in faulty eligibility determinations, the random audit informs EDD of the problem. The EDD indicates that it has no proposal to replace the Random Audit so that the department can verify the statistical reliability of its estimates or identify the sources of UI program fraud.

Accordingly, we recommend that EDD provide the fiscal committees with a cost-benefit analysis of these activities. In addition, we recommend that the department inform the fiscal committees of (1) how *statewide* occupational assessments will provide adequate information to users of these data and (2) how EDD proposes to measure (a) the statistical reliability of its UI data and (b) the sources of UI program fraud.

Employment Services Proposal Would Eliminate Coordination at the Local Level. The budget proposes to eliminate 52.0 positions and $6.5 million in reimbursements that currently are used to provide assistance to service delivery areas (SDAs) under the federal Job Training Partnership Act (JTPA). These 52 positions are the last of more than 300 positions within EDD that once provided job training, counseling, and assessment services to the unemployed through contracts with local SDAs. In the 1984–85 budget, EDD proposed to eliminate all but 52 positions, which were maintained in order to provide services in those SDAs that had no other available provider of employment and training services besides EDD. According to EDD, only 16.9 positions and $398,000 in contracts have been negotiated with SDAs in the current year.

Elimination of these positions would limit EDD's ability to coordinate local job service programs with local JTPA programs. Under the department's proposal, local EDD offices would no longer register, assess, and refer individuals for JTPA services. Instead, potential participants would be referred to other locations to register for services. According to EDD, local coordination is taking place in some areas at the initiative of the SDAs. The department advises that in at least two SDAs, JTPA-funded intake workers are co-located within EDD's local job service offices.

We believe that strong state leadership is needed to ensure coordination of employment programs at the local level. The proposal to eliminate 52 positions removes a tool that can achieve this coordination, without identifying an alternative plan for linking the Job Service to local JTPA training.

Accordingly, we recommend that the EDD submit to the fiscal committee a plan for ensuring coordination between job service programs and local SDAs under the JTPA.

Discretionary Funds Need a Focus. Federal law permits the state to use up to 10 percent of its Job Service grant funds for various discretionary activities. The budget proposes $7.4 million for discretionary activities in 1985–86. Under federal law, eligible discretionary activities include (1) providing incentive grants to local job service offices, (2) providing services to groups with special needs, and (3) funding experimental job service programs.

The 1985–86 budget proposes to eliminate 93.1 positions which currently provide support for programs funded with these 10 percent discretionary funds. Instead, the department proposes to use the $7.4 million in discretionary funds to contract with SDAs for the provision of local programs. This proposal would leave EDD with 10 central office positions to handle contracting and evaluation workload.

We have two concerns with the department's proposal. First the department did not identify why contracting with SDAs would result in a more effective use of these funds. Second, EDD has been unable to provide us with specific plans for the use of its 10 percent discretionary funds. There are a number of potential ways in which these monies could be used to increase the effectiveness of employment and training programs. The department could, for instance, use these monies to spur local coordination with the Job Service program. If EDD used some of the 10 percent monies to fund SDA staff who would be co-located in local job service offices, the department could mitigate the loss of the 52 positions discussed above.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

The department also could use these funds to foster coordination with EDD's Work Incentive (WIN) program. For example, these funds could be used for incentive awards that would reward local JTPA programs for serving hard-to-place recipients of Aid to Families with Dependent Children (AFDC), as identified by EDD WIN offices.

The department's initiative offers a host of possibilities for increasing coordination between local employment programs, thereby increasing the effectiveness of these programs in helping the unemployed locate a job. Unfortunately, the proposal made by EDD does not provide the Legislature with adequate information to assess the merits of the proposal. Accordingly, we recommend that EDD submit to the fiscal committees a proposal discussing how the department plans to use the 10 percent discretionary funds. We also recommend that this plan discuss how the department's strategy enhances the state's overall ability to help the unemployed find and keep jobs.

WIN Proposal Lacks Documentation. Chapter 522, Statutes of 1984 (SB 861), authorizes California to participate in the federal WIN Demonstration program. This statute is now being implemented.

Under the state's WIN Demonstration program, counties are required to register and refer AFDC recipients for job search assistance under the WIN program. (In the past, EDD has registered and assessed AFDC recipients for WIN participation.) In addition, fiscal responsibility for the WIN program is being transferred from EDD to the Department of Social Services (DSS). Because of this transfer, the DSS will begin contracting with EDD for the provision of job search training under the WIN Demonstration program.

The budget proposes to delete all *direct* funding for WIN from EDD's budget item. Instead, DSS would receive the state's WIN grant and provide $23.1 million, or 60 percent of the total, to EDD as reimbursement for employment services. The remaining 40 percent of the federal WIN grant, or $15.4 million, would be kept by DSS in order to (1) support additional DSS administrative responsibilities, (2) provide supportive social services to WIN participants through county welfare agencies, and (3) reimburse counties for the costs they incur in carrying out the additional duties required by the WIN Demonstration program.

Currently, EDD keeps 70 percent of the WIN grant and transfers the other 30 percent to DSS for use in reimbursing counties for the cost of providing supportive services to WIN participants. Thus, the 1985–86 budget proposes to reduce EDD's share of the WIN grant from 70 to 60 percent. This would increase the DSS share from 30 to 40 percent—or by $3.8 million. These funds will be used to reimburse counties for their duties under the WIN Demonstration program.

The budget fails to document that $3.8 million would adequately reimburse the counties for those duties. Our analysis indicates that this allocation may fall far short of the amount needed to fully reimburse the counties. For example, EDD's own statistics indicate that WIN registration activities—the duties counties will assume under the demonstration—absorb about 25 percent of its annual budget. Thus, if EDD (rather than DSS) administered the program in the budget year, registration activities would cost approximately $8.7 million—2.5 times the amount set aside by the budget to reimburse counties for these activities. While counties may be able to register WIN recipients more efficiently than EDD did, it is not clear that their costs will be less than half of what EDD would have spent.

Therefore, we recommend EDD and DSS submit to the fiscal committees justification for the proposed allocation of WIN funds in the 1985–86 budget. We further recommend that the departments provide an estimate of the costs that counties will incur under the WIN Demonstration program.

Finally, to eliminate inconsistencies between the budget and EDD's supporting documents regarding the number of positions to be eliminated, we recommend that EDD submit to the fiscal committees, a list of its proposed position reductions, the number of positions deleted by each proposal, the salaries, benefits, and operating expenses deleted by each proposal, and the amount of support reduced from the department's fund sources for each proposal.

Legislature Needs Additional Control Over Position Reductions

We recommend that the Legislature adopt Budget Bill language prohibiting EDD from further reducing services to the unemployed in order to generate funds for the purpose of supporting permanent staff positions that are proposed for deletion.

The EDD believes that it can achieve the proposed staffing reductions without resorting to layoffs. According to the department, the 1,635.6 positions would be abolished in two ways. Reduction in permanent positions would be achieved through normal attrition and transfers to other departments. In addition, the department would cut back on its hiring of permanent intermittent staff—temporary staff who are regularly hired by EDD to absorb the increased workload in the UI and Job Service programs caused by increased unemployment. The department uses intermittents to provide services to the unemployed through EDD field offices.

The proposed EDD staff cuts would cause a large reduction in the department's use of intermittent staff. Of the 1,635.6 positions proposed for reduction, 825.4 positions, or 50 percent, would be permanent intermittents. Since these positions do not have civil service status, EDD can achieve the reductions simply by terminating the contracts of these temporary workers. The remaining 810.2 positions proposed for reduction represent permanent staff positions.

Inability to Achieve Reductions Could Further Reduce Service to EDD's Clients. Our analysis indicates that the proposed level of services provided under the UI and Job Service programs is vulnerable to further reduction beyond what the budget proposes. According to the department, if cuts in permanent staff—*either field office or central office positions*—cannot be achieved through attrition or transfer, EDD would further restrict its use of intermittent staff in order to divert salary monies budgeted for temporary staff to support the staff whose permanent positions were deleted. *The net effect of such a diversion would be to continue permanent staff positions that the department does not believe are needed at the expense of intermittent staff who are needed in order to provide services to unemployed individuals.*

Our analysis suggests that the potential adverse impact on services to the unemployed could be significant. This is because the salaries earned by permanent staff are much larger than those earned by intermittent employees. As a result, EDD would need to terminate more than one temporary position in order to maintain one full-time staff member in a position that has been eliminated. Temporary staff earn about $19,000 a year while permanent EDD staff average $27,000 a year, or 42 percent more than intermittents. Therefore, to maintain one permanent position,

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

EDD would have to hold open or terminate 1.4 temporary positions. Because the intermittent staff directly provide services in EDD field offices, any additional reductions in temporary positions beyond what the budget provides for would result in a proportionately larger reduction of services to unemployed individuals in the state.

A similar diversion of funds between permanent positions in the field office and permanent positions in the central office could also occur. The reductions proposed by the department would have their largest impact in EDD's field offices. Of the total reductions, 1,248.9 positions, or 76 percent, are now assigned to field offices. If EDD cannot achieve its proposed central office staff cuts, it might further reduce permanent field office support in order to stay within the budgeted level of staff support. Obviously, this would further reduce the field office staff available to provide services to the unemployed.

In order to ensure that services to the unemployed are not reduced in order to free up funds needed to support staff in positions that have been eliminated, we recommend that the Legislature adopt Budget Bill language prohibiting the department from (1) redirecting support for temporary help to fund permanent positions and (2) redirecting support for field office staff to fund positions in the department's central office. While this language would limit the department's flexibility in achieving its proposed staffing reductions, it would protect the department's primary clients—those who need help finding jobs. In effect, the language would hold the department's feet to the fire by requiring it to achieve the reductions as *it* proposed in the budget.

The following language is consistent with this recommendation:

"No funds appropriated by this act for (1) the support of temporary help within the Employment Development Department (EDD) shall be redirected to support permanent EDD staff and (2) support of EDD field office operations shall be redirected for support of staff or expenses incurred by its central office operations in Sacramento."

Job Service Funding Sufficient to Support Additional Staff

We recommend restoring 26.9 positions proposed for deletion from the federal Job Service program in order to maximize the amount of local services supplied to unemployed individuals.

The budget proposes to delete 67.4 positions from the federal Job Service program in 1985–86. The Job Service program refers unemployed individuals to available job openings through local EDD field offices. According to EDD the costs of the Job Service Program—primarily employee salaries and benefits—is increasing faster than federal funding for the program. With this in mind, the department proposes to reduce the total number of Job Service positions that provide local services in order to make funds available for salary increases for the remaining staff.

Our analysis indicates that the budget proposal goes further than necessary to achieve this objective. The budget proposes to allocate $39.0 million for salaries and wages for job service employees. According to EDD, if a 5 percent increase in salaries is granted in 1985–86, Job Service salaries would average $26,586 a year. At that rate, and given anticipated federal funding levels in 1985–86, EDD could support 1,466.8 positions in the budget year, or 26.9 positions more than the number proposed in the budget.

In order to maximize the level of services provided under the Job Service program, we recommend that the Legislature authorize an additional 26.9 positions for this program in the budget year.

Department's Operating Expense Budget Not Realistic

We recommend that, prior to budget hearings, EDD submit to the fiscal committees (1) a revised schedule of operating expenses and equipment, (2) documentation showing how the revised request for each category of expense was determined, and (3) a list of proposed expenditures that constitute the revised request for each category of expense.

The budget requests $236.8 million for EDD's operating expenses and equipment in 1985–86. Of this amount, $146.8 million, or 62 percent, would be used to support training contracts and other client services, and $90.0 million, or 38 percent, would be used for normal operating expenses such as rent, travel, and utilities.

In reviewing EDD's 1985–86 operating expense request, we found many errors and inconsistencies. For example, although the budget proposes $2.5 million in support for external consultant and professional services, supporting documents show EDD planning total expenditures for consultant services of more than $4 million.

The department acknowledged that its schedule of operating expenses and equipment does not accurately represent EDD's anticipated 1985–86 expenditures in each category. The department advised us that it was working to correct the problem.

Accordingly, we withhold recommendation on the amount requested for operating expenses and equipment in 1985–86. We recommend that, prior to budget hearings, EDD submit to the fiscal committees a revised operating expense budget that accurately reflects its anticipated expenditures for each category of expense. We further recommend that EDD submit supporting documentation (1) illustrating how the department determined the amount of its request in each category and (2) listing the anticipated expenditures constituting the request in each expense category.

Technical Budgeting Issues

1. ***We recommend a reduction of $7.1 million and 48.4 positions in order to make EDD's budget internally consistent. These recommendations would correctly reflect the full effect of the department's proposed position reductions on its budget, as follows:***

- Deletion of 48.4 administrative and support positions and $1.3 million ($105,000 from the General Fund, $1,144,000 in federal funds, and $51,000 from the DI Fund) that will not be needed in 1985–86, given the department's proposed reduction in direct services staff.
- Reduction of $3.8 million ($500,000 from the General Fund, $2,746,000 in federal funds, and $554,000 from the DI Fund) requested for salaries and benefits in order to reflect the full reduction in salaries and benefits that the department would experience as a result of the position reductions it proposes.
- Deletion of $1.95 million ($139,000 from the General Fund, $1.75 million in federal funds, and $66,000 from the DI Fund) in operating expenses that will not be incured if the position deletions proposed by the department are approved.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

These amounts would be reduced if the Legislature determines that positions proposed for elimination are needed for the administration of the state's programs.

2. ***We recommend a reduction of $906,000 and 7.0 positions in order to eliminate departmental support that was overbudgeted for reasons other than the proposed staff reductions, as follows:***

- Deletion of $282,000 requested from the DI Fund in order to eliminate funding for the development and implementation of a now-completed project to automate the DI field offices.
- Deletion of $337,000 and 7.0 positions from the DI Fund to fully reflect the impact of DI field office automation in the budget year.
- Reduction of $287,000 from the EDD Contingent Fund and augmentation of a like amount in federal funds to properly reflect funding requirements for certain jointly funded activities.

Substitute Federal Funds for State Support

We recommend that $4.7 million in available federal funds be used in lieu of a like amount from the EDD Contingent Fund to support the UI and Job Service programs. (Reduce Item 5100-001-185 by $4,702,000; increase Item 5100-001-870 by $4,702,000.)

The staff reductions proposed by EDD would make $2.6 million in federal UI and Job Service funds available for use in 1985–86. The department, however, has no specific plans to spend these funds in the budget year.

Furthermore, if our technical budgeting recommendations are approved, an additional $2,802,000 in federal funds would be freed up for use in 1985–86. This would make available $5.4 million in federal funds ($2.6 million related to staff reductions and $2.8 million related to technical budgeting errors) for programs that assist unemployed persons.

Our analysis indicates that $703,000 of these funds could be used to increase training for the economically disadvantaged under the JTPA. The remaining $4.7 million in federal funds consists of $1.5 million in Job Service funding and $3.2 million in UI administrative support.

Federal Funds Should Be Used Before State Funds. The budget proposes to spend $5.5 million from the EDD Contingent Fund for a variety of UI and Job Service activities in 1985–86. For example, the budget proposes to spend $2.1 million from the EDD Contingent Fund to support the California Automated Services Project, which is testing automation designs for the UI program. In addition, EDD proposes to spend $1.3 million from the EDD Contingent Fund to increase the amount of labor market information available to the state.

Given the availability of $4.7 million in federal funds that could be used for the same purposes, the Legislature would not need to appropriate this amount from the EDD Contingent Fund.

By using the available federal funds to replace EDD Contingent Fund support for UI and Job Service activities, $4.7 million would become available to the Legislature for use in funding a wide variety of activities. To provide this additional legislative flexibility, we recommend the deletion of $4,702,000 requested from the EDD Contingent Fund, and augmentation of Item 5100-001-870 (federal funds) by a like amount.

UNEMPLOYMENT INSURANCE PROGRAM

How Should the State Administer UI Claims for Employees of Local Government and Schools?

We recommend that, prior to budget hearings, EDD submit a report to the fiscal committees detailing the costs and benefits of the state's options in providing UI benefits to employees of local public entities.

In 1978, the Legislature required that all local public entities—cities and county governments, as well as special districts—provide coverage to their employees under the Unemployment Insurance (UI) program. (This program is referred to as the Local Public Entity program.) The Legislature took this action in response to a federal law which gave the state no reasonable alternative to requiring such coverage.

A number of the local entities believed that, by requiring local governments to participate in the UI program, the state enacted a mandated local program, the costs of which are reimbursable through the Board of Control claims process. When the board denied their claim for reimbursement, these entities sued the state for reimbursement of their UI costs.

The local governments won their suit. The Third Appellate District Court held that the state must reimburse the UI costs incurred by local public entities. In its decision (which was upheld by the state Supreme Court), the appeals court found that the state *did* have discretion under federal law. The state could have opted not to require local participation in the UI program, notwithstanding the fact that such action would have increased employer taxes by $2.3 billion a year.

The EDD estimates that the cost of providing benefits to local government employees between January 1978 and October 1984 was about $150 million. The department projects that the ongoing costs of providing these benefits will average between $20 million and $30 million each year. As a result of the court's decision, these costs will have to be borne by the state's General Fund.

The State's Options for Administering the UI Program for Local Public Entities. The court's decision that the state must reimburse local governments for their benefit costs of providing UI benefits to their employees raises two issues for the Legislature's consideration:

1. What funding source should be used to support the program?
2. How shall the program be administered?

Funding the Mandated Local Costs. Under current law, funding for the mandated local costs of UI benefits provided to local government employees will come from the General Fund through either the local government claims bill or the mandated-cost section of the Budget Bill. There are, however, other options for financing and allocating funds for this purpose:

- ***Fund source.*** Funding from the state UI fund could be used to finance these local mandated costs. According to EDD, the UI fund will have a reserve of $4.2 billion at the end of 1985–86. Although a $30 million annual increase in costs to the fund probably would not have any immediate effect on employer tax rates, it would, in time, affect employer UI taxes.
- ***Allocation method.*** Support for both the benefit costs and administrative costs of the Local Publc Entity UI program could be appropriated directly through the annual Budget Act. This would require the department to estimate the total costs of the program each year.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Options for Administering the Local Public Entity Program. The EDD believes that the most efficient way of administering the program is to require that each local public entity review UI claims submitted by its former employees to assure that they are valid—that the former employee was laid off or quit with "good cause" and that he or she reported the correct wages in the application for benefits. In order to cover the costs that the local public entities would incur in performing these duties, each entity would be paid a fee. Additionally, the fee would cover the cost of appearing at appeals hearings in the cases where there is disagreement over the UI eligibility of a former employee.

At our request, EDD developed estimates of what it would cost to administer the Local Public Entity program in four alternative ways. The EDD also provided an assessment of each option. Under each of the four options, EDD's additional costs would be less than the administrative costs incurred by the local entities. The local administrative costs range from $2 million to $15 million annually, while EDD's additional administrative costs would not exceed $750,000 per year under any of the options. The four options, along with EDD's assessment of each, are discussed below.

- *EDD Administration.* Since the state is liable for the administrative and benefit costs of this program as a result of the court decision, one obvious option is for EDD to administer the program. Under this option, EDD, with the assistance of local entities, would be responsible for verifying the eligibility of claimants. The department believes the costs to these entities of supplying the needed information would range from $2 million to $4 million. The EDD's additional annual costs of administering the program would be minimal (under $100,000).

  The EDD advises us that state administration of this program would create a conflict with the department's role as UI administrator. The EDD feels it should play a fact-finding role in the UI program, not the quasi-employer role that is established if the department seeks to verify claimant eligibility. On the other hand, state administration provides the state with direct control over the costs of the program.
- *Statewide Claims Management.* This option would essentially transfer responsibility for verifying claimant eligibility to an independent third party. According to EDD, the local costs are the same as for the state administration option, but the state costs of this option —estimated at about $750,000 a year—are higher than the cost of state administration.
- *Local Claims Management.* Under this option, EDD would pay a fee to each local entity to cover its costs for reviewing claimant eligibility. The department recommends this option because it believes that a prospective payment promotes local efficiency in claims administration. According to EDD, local costs would total $2.2 million to $4.0 million a year; additional state costs would be negligible. The department notes, however, that the state would remain liable for any costs incurred by local entities that exceed the amount of the fee. Therefore, it is not clear how this option would effectively limit state liability under this program.
- *Actual Cost Reimbursement.* Under this option, local entities would be reimbursed for their *actual* costs. The EDD believes that administrative and benefit costs would increase dramatically under this alternative.

The Legislature Needs More Information Before It Can Act. We believe the Legislature needs additional information before it can decide which of these alternatives is in the state's best interest. While EDD's assessment provides an excellent summary of the issues facing the Legislature, it ignores two key topics:

- ***Benefit Costs.*** The department's analysis discusses each option only in terms of administrative costs, and does not give adequate attention to the *amount* of UI benefits that would be paid to former local entity employees. Our analysis suggests that benefit costs could be significantly different, depending on how the program is administered. Because local governments will have no incentive to minimize *benefit* costs, different administrative procedures could create cost-minimizing incentives, thereby reducing the cost to the state of UI benefits under this program. In fact, the primary reason why the state might want to assume control over administration of the program is the greater opportunity it would have to limit the costs of benefits paid under the program.
- ***Experience of Similar Programs.*** The EDD has administered the School Employees UI program in a manner that is very similar to the way in which it proposes to administer the Local Public Entity option. An assessment of the costs of this program—in terms of both administrative and benefit costs—would supply the Legislature with an example of how the department's recommended option would work.

Therefore, to assure that the Legislature has the information it needs to assess the available options for administering this program, we recommend that, prior to budget hearings, EDD submit to the fiscal committees a report detailing the costs and benefits of each option. We further recommend that this report contain an in-depth analysis of (1) the estimated amount of UI benefits that would be paid to former employees of local entities under each option, and (2) a discussion of the department's experience in administering the School Employees UI program, including an assessment of the benefit and administrative costs of operating the program, and an analysis of why this way of administering this local program encourages local entities to minimize *total* program costs.

EMPLOYMENT DEVELOPMENT DEPARTMENT AUTOMATION ACTIVITIES

One way for departments to reduce their staffing needs is to replace staff who operate manual administrative systems with automated processing systems using computer technology. The Employment Development Department's (EDD) largest programs—administration of Unemployment Insurance (UI) and Disability Insurance (DI) and tax collection—are well-suited to automation because a primary function of these programs is tracking program activities. These activities include charging employer tax payments and employee benefit claims to the correct accounts and issuing checks.

Currently, the EDD's operations are not highly automated, and those data systems that are in use are relatively old and inefficient, given the capabilities of current technology. Therefore, automation holds out the promise of significant potential cost savings in program administration. In addition, automation may also result in improved program services.

The EDD has begun a crash course of computerization in order to realize the potential benefits of automation. Since 1982, the department has implemented or planned an automation project in each of its major programs. Many of these projects will move into the implementation

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phase during 1984–85 or 1985–86, and will take up to four years to complete. Table 6 lists the major EDD automation projects currently planned or underway.

Table 6
EDD Automation Projects
(dollars in thousands)

Automation Projects	*1984–85*	*1985–86*	*1986–87*	*1987–88*	*Total*
Job service order sharing	$6,500	$2,000	$2,200	$1,000	$11,700
UI automation [a]	2,200	6,800	2,800	—	11,800
DI automation	100	200	2,000	1,700	4,800 [b]
Tax collection	2,900	3,500	500	—	6,900
Totals	$11,700	$12,500	$7,500	$2,700	$35,200

[a] Includes benefit payment control automation.
[b] $800,000 needed in 1988–89 included in total.

Clearly, EDD's automation plans are ambitious. A total of $35.1 million is proposed to be spent between 1984–85 and 1987–88 in support of four major projects, as follows:

- ***Job Service Order Sharing.*** The EDD plans to link by computer all job service offices within a labor market in order to share job listings. This project is expected to be finished in 1987–88.
- ***UI Automation.*** All aspects of UI administration—claims processing, employee eligibility, and checkwriting—are scheduled for automation. This project is scheduled for completion in 1986–87.
- ***DI Automation.*** The department is proposing to automate the DI program using a design which is similar to the UI automation plan. According to the EDD's proposed schedules, this project will not be completed until 1988–89.
- ***Tax Collection.*** Automation of EDD's tax collection operations would modernize the department's accounting and check-cashing operations. In addition, this project would overhaul UI and DI data files needed to carry out the automation of the two benefit programs. The proposed completion date is 1986–87.

Fund Sources for Automation

We recommend that, prior to budget hearings, the department submit to the fiscal committees a report identifying the proposed amount and source of staff support for EDD's proposed automation activities in the budget year.

The department has a variety of funding sources to draw upon for its automation projects. First, the department can redirect program funds in order to provide support for automation. According to the EDD, $6.5 million in existing federal funds for the job service program was used to support the initial job order-sharing design.

A second source of automation funding is the federal government. The federal Department of Labor (DOL) makes specific funds available for UI automation projects. To date, the department has received $2.3 million from the DOL, and expects an additional $1.9 million to be approved in January 1985 for various automation projects.

A third source of funds is the EDD Contingent Fund. This fund is supported by various fines levied under the UI and DI programs. In 1984–85, this fund provided $4.1 million for EDD computerization. In addition, the EDD proposes to use $7.7 million from the Contingent Fund for automation in 1985–86.

Finally, the department can use support from the Reed Act Fund. This fund provides support for UI capital outlay projects but can also be used for automation projects. According to the EDD, the Reed Act Fund balance totals $6.5 million in 1984–85.

EDD's 1985–86 Funding Proposal Not Clear. The department could not fully identify its automation funding proposal for 1985–86. Specifically, EDD could not identify the amount and fund source of support for staff costs required to plan and implement the proposed projects in the budget year. Although EDD accurately identified its equipment needs for these projects for 1985–86, the department could not indicate the amount of funds set aside in order to provide the staff necessary for writing the computer programs, testing the systems, and providing training to staff that will work with the automated systems.

In order to provide the Legislature with the full scope of its proposal, we recommend that, prior to budget hearings, the EDD submit information to the fiscal committees identifying the proposed amount and source of staff support for the department's proposed automation activities in 1985–86.

In the pages that follow, we review the EDD's four major automation projects. This review was requested by the Unemployment Insurance and Disability Insurance Subcommittee of the Assembly Finance and Insurance Committee. To help with the study, staff from the Auditor General's office provided technical assistance in automation design and function. The Auditor General staff contributed immeasurably to this review. We emphasize, however, that the conclusions and recommendations contained in this review are those of the Legislative Analyst's office, and may not represent the views of the Auditor General's office or its staff.

Feasibility Studies Do Not Adequately Assess Alternatives

We recommend that the Legislature adopt Budget Bill language requiring the EDD to transfer $100,000 to the state Office of Information Technology (OIT) in order to allow the office to contract for full-time oversight and review of the department's current and proposed automation projects.

State law requires the OIT to approve departmental automation proposals before they are implemented. This review is designed to insure that (1) each project produces cost savings or program benefits that exceed the cost of automation and (2) each project design is technically feasible. A feasibility study report (FSR) is the primary document used to evaluate a department's proposal.

According to the State Administrative Manual, an FSR should address three main topics, as follows:

- ***Need for an Automated System.*** This section identifies the problem the department is trying to solve through automation. This section also includes a discussion of the tasks being automated, as well as the minimum performance requirements of the system.
- ***Alternative Analysis.*** This portion of the study examines alternative ways of solving the identified problems. Included as alternatives are possible manual and automated administrative options. In addi-

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tion, this section usually contains a cost-benefit analysis of the alternatives.

- ***Implementation Plan.*** This plan contains an implementation schedule as well as the organizational changes required to implement the recommended automated system.

Once the FSR is approved by the OIT, the department may begin the implementation process. Departments must consult with the OIT concerning changes to the approved design. If a department proposes major changes, the office may require the department to officially update the FSR.

We reviewed the EDD's feasibility studies for its proposed automation projects. Our analysis indicates that the major problem with the department's feasibility studies is that they do not adequately assess the available alternatives. Our review identified the following weaknesses in the department's review of alternatives:

- ***EDD's Feasibility Studies Do Not Examine the "Big-Picture" Options.*** In the case of UI automation, the EDD submitted five FSRs, each study concerning one distinct aspect of the proposed automation system. The department never conducted an examination of the broader options available to the state in administering the program. For example, instead of administering the UI program from local field offices, EDD could design an automated system centralizing most UI activities. Moreover, as a result of separating the parts of the project from each other, the department increases the difficulty of (1) understanding how the parts fit into an integrated whole and (2) assessing whether the most appropriate and cost-efficient system was recommended by the department. Because of the complexity of the UI and DI automation projects, we believe that conceptual studies, weighing the broad options available to the state, should precede any FSRs.
- ***EDD's Studies Usually Propose Only One "Realistic" Alternative.*** The FSRs avoid comparisons of potential alternatives in various ways. Some studies, for instance, merely propose one alternative to the manual system—the "recommended" automated system. Other FSRs propose system design requirements so stringent that only one alternative can satisfy those requirements. Finally, some studies reject alternatives outright with no explanation.
- ***EDD's Studies Rarely Quantify the Benefits Associated with Alternative Designs.*** Comparing the cost and benefits of various options is almost impossible if benefits are not quantified. The department usually estimates the operating cost savings associated with alternatives, but usually does not calculate the value of any service improvements. Understanding both cost savings and service improvements, however, is essential to determining which alternative is most advantageous. For example, one benefit identified by an FSR concerning the automation of the Job Service program is that "employers will have an image of the department as a modern, efficient agency that can meet their staffing needs." Because the department did not estimate the additional number of job referrals that employers will ask for as a result of automation or build into the workload statistics this increase, there is no way to assess the value of this "modern image."

Most of the feasibility studies cited above were approved by OIT prior to our review. State law and regulations vest OIT with the responsibility of ensuring that FSRs adequately address questions of the need for, and appropriateness of, a particular automation design. We believe our review clearly indicates that the office is not fulfilling its pivotal role in assessing the need for and appropriateness of EDD's automation proposals.

We believe that EDD's feasibility studies warrant a more vigorous review by OIT. In addition, our analysis of particular automation proposals (which follows this discussion) indicates that EDD needs to reevaluate two of its major automation designs. Judging from the quality of EDD's previous feasibility study efforts, we believe OIT should closely monitor the development and progress of these studies, as well. The office indicates, however, that increasing the review of EDD's projects would reduce the OIT staff available to review the projects of other state departments.

We have recognized in past analyses that OIT is severely understaffed relative to the workload it is asked to complete. As a result, we are reluctant to increase its workload without also increasing its staffing level. Therefore, we recommend adoption of Budget Bill language requiring EDD to transfer $100,000 from its allocation for data processing activities to the OIT. We further recommend adoption of Budget Bill language under Item 8860-001-001 (Department of Finance) requiring the OIT to contract for an automation specialist that would devote full-time efforts to reviewing the planning and implementation of EDD automation projects.

Job Service Order Sharing

We recommend deletion of $2,241,000 from Item 5100-001-185 proposed for support of the Job Service Order Sharing Project in 1985–86. We further recommend adoption of Budget Bill language under Item 5100-001-870 requiring the department to delay further implementation of the job order-sharing project and to submit a report to the Legislature which provides a cost-benefit analysis of alternative ways to increase the number of job orders to field offices in areas with few job opportunities.

The purpose of the federal Job Service program is to assist unemployed persons find jobs by matching their skills with the needs of employers. The EDD administers the program in California through its job service employees, who are located in local field offices. Job service employees keep in constant touch with employers so that unemployed individuals requesting assistance can be referred to available jobs.

In 1982–83, the department initiated the Job Service Order Sharing (JSOS) automation project, which is designed to share notices of available job openings between all field offices located in the same labor market. The department hoped that "job order" sharing would achieve two goals, as follows:

- ***Increase job referrals to individuals living in areas with few job opportunities.*** By sharing job orders between EDD field offices, job seekers living in areas with few job opportunities could be referred to jobs located outside their immediate community.
- ***Increase program efficiency, leading to administrative savings.*** In 1982, the department anticipated federal funding reductions for the job service program. In order to accommodate these anticipated funding reductions, EDD hoped to streamline program operations, thereby reducing the need for staff.

The feasibility study dealing with job service order sharing discussed a

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range of alternative automation designs in addition to the manual system in operation at the time. Table 7 summarizes the cost benefit analysis for three alternatives.

The *time-share* alternative uses a commercial vendor to distribute job orders to field offices on microfiche. The *on-line* alternative immediately shares job orders by connecting all offices in a labor market with computers. The *microfiche* option combines the time-share and on-line capabilities so that each field office in each labor market maintains a computerized list of job orders that is distributed on microfiche daily to the other field offices.

Table 7

Three Order-Sharing Alternatives

	Alternative Design		
	Time-Share	*On-Line*	*Microfiche*
Development costs	$23,000	$4,241,000	$2,239,000
Operating costs	635,000	568,000	556,000
Total annual costs[a]	641,000	1,628,000	1,016,000
Additional placements[b]	4,300–8,600	4,900–9,800	4,300–8,600
Cost per Additional Placement	$75–$150	$166–$332	$118–$236

[a] Using OIT's rule of thumb, development costs are assumed to be "paid back" over four years.
[b] Additional placements compared to manual administration.

Order Sharing Study Does Not Adequately Assess Alternatives. The department's FSR for order sharing recommended adopting the on-line job order sharing design. Our review of the study, however, suggests that EDD's analysis of the various alternatives was incomplete. Specifically, our review identified the following problems with the department's analysis:

- ***The FSR suggests that job order sharing would not increase the total number of job orders, but would change which unemployed person would be referred to a job.*** Our analysis suggests that the on-line system would not substantially *increase* the number of job orders submitted by employers, but would merely *change* which unemployed person is referred to particular job openings. According to the department, most job orders involve relatively low-skill, ground-floor employment opportunities. The department also indicates that most offices have more applicants for these jobs than they have job openings. Therefore, most field offices have sufficient numbers of qualified individuals so that each office could fill most of the orders it receives. As a result of the high demand for these jobs, the instantaneous sharing of jobs that is accomplished by the on-line system merely changes which unemployed person gets referred to a job. Therefore, when any one office has more than enough applicants to fill the job, the benefits of sharing job orders are not apparent. Put another way, why should the state spend $4.2 million for a system that merely changes which unemployed person gets referred to a particular job?
- ***The FSR recommended implementing the least cost-effective alternative in terms of cost per additional placement.*** The total annual cost of the on-line system recommended by the FSR is 154 percent higher than the time-share option but would increase job placements by only 14 percent. Moreover, the additional placements gained by

purchasing the on-line system, rather than the time-share option, would cost 2.5 to 5 times what it would cost to achieve the same number of placements using manual administration. For example, the on-line system generates 600-1,200 more placements each year than does the time share option. Because the on-line system costs $987,000 more each year than the time-share option, these additional placements cost $800–$1,600 each. The average cost per placement under the manual system, however, totals only $300. Clearly, the on-line system is not justified for reasons of superior cost effectiveness.

- ***The FSR does not evaluate the effectiveness of other ways to increase the number of job orders in disadvantaged areas.*** The on-line option proposes to increase the number of job orders in areas with few job opportunities by sharing the job orders received from employers located in neighboring areas. Since the study does not examine other alternatives besides sharing, the department does not demonstrate that order sharing is the most effective way of ensuring that individuals living in areas with few job opportunities have access to job referrals.

  We believe there are other ways beyond those discussed in the FSR to *increase* the number of job orders available to the unemployed living in disadvantaged areas. For example, the department could increase the number of job service employees who develop job orders in disadvantaged areas. The savings realized by implementing the time-share option ($1 million in development costs plus $1.0 million in annual operating costs) would have permitted EDD to hire an additional 60 to 80 workers each year to search for job opportunities in and around disadvantaged areas of the state. This option would achieve overnight job sharing for those jobs that cannot immediately be filled, and increase the *total* number of job orders—and placements—available to EDD field offices.

- ***On-Line Job Sharing Will Increase Administrative Costs.*** In its original FSR, the department estimated that its on-line automated system would save $1.0 million in operating costs annually. In its report to the Legislature required by Ch 1226/84 (AB 1654), the EDD states that the on-line system will not result in savings,. but will *increase* Job Service operating costs by $1.0 million. Thus, operating costs would increase by $2.0 million each year over the amount originally estimated in the FSR. In addition, when the system is complete, development costs will total $16.0 million, a three-fold increase from the original $4.2 million estimate. The department indicates two sources for the additional costs. First, the program has been expanded statewide. Second, the department changed the method by which it estimated costs for the project. The department is unable to document the way these different estimates were calculated.

EDD Needs to Reassess the Order-Sharing Project. The department has implemented the first stage of the order-sharing project by automating its San Diego, Los Angeles, and Santa Clara County field offices. The second stage—which will automate the Bay Area counties—is scheduled to begin in January 1985. Given the operating cost increases that EDD anticipates as a result of this project, as well as the FSR's failure to adequately consider alternative ways of increasing job orders to disadvantaged areas, we believe EDD should rethink its order-sharing design. If further expansion of the order-sharing system is postponed, there would

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be no need for the $2.2 million that the budget requests from the EDD Contingent Fund in 1985–86.

For the reasons given above, we recommend that $2.2 million requested from the EDD Contingent Fund for automation of the JSOS be deleted from the Budget Bill. We further recommend the adoption of Budget Bill language requiring EDD to stop implementing the order-sharing project and to report to the Legislature by December 1, 1985, the costs and benefits of alternative ways for increasing the number of job orders to offices in areas with few job opportunities. The following language is consistent with this recommendation:

"The Employment Development Department shall not continue implementation of the Job Service Order Sharing automation project. In order to provide the Legislature with a way to assess future order-sharing activity, the department shall submit to the Legislature by December 1, 1985, a post-evaluation implementation review on that portion of the automated order-sharing network that is currently implemented. This review should include, but not be limited to, the following information:

"1. The cost of the project as of July 1, 1985, and the areas in the state already automated with the on-line system.

"2. The remaining cost of the project, the areas to be automated, and the projected source of funding.

"3. An evaluation of alternative methods of increasing job orders to disadvantaged areas of the state. This evaluation should include a cost-benefit analysis incorporating development and annual operating costs."

Automation of the Insurance and Tax Collection Programs

We recommend deletion of $2.8 million from the EDD Contingent Fund (Item 5100-001-185) proposed for automation of the UI program in 1985–86. We further recommend that the Legislature adopt Budget Bill language requiring EDD to report to the Legislature on the options available to the state in automating the UI program.

The department's largest programs are the UI, DI, and tax collection programs. Under the UI and DI programs, the EDD receives claims for benefits, evaluates the eligibility of claimants, issues benefit checks and tracks UI and DI tax payments and benefit claims. Under the tax collection programs, the department collects the UI, DI, and personal income taxes from employers, cashes the checks, and deposits payments into the appropriate accounts.

The department is planning to automate these three interconnecting programs into one integrated automated accounting system. The scope of this project is massive: (1) 134 UI field offices and 17 DI field offices will be automated with a full-time on-line computer linked directly to the main computer in Sacramento; (2) benefit checks for the UI and DI programs will be issued from four central locations, rather than from each field office, as is currently done; and (3) four years of wage and claim information will be available to any field office employee on any worker in California within six seconds. At the heart of this project is the tax collection project, which will establish employer and employee files. These files will contain information on employer payments under the UI and DI programs, as well as personal income tax withholding. The files will also contain employee wage and UI and DI benefit claim information, in addition to an account of personal income tax withholding data.

This project is on the fast track. By July 1, 1986, the EDD plans to completely automate the tax programs and the UI field offices. Automation of the DI field offices and connection of the UI and DI offices to the tax data base is scheduled for 1986–87.

EDD Needs to Reevaluate the UI Automation Plan. The 1985–86 budget proposes $2.8 million from the EDD Contingent Fund in support of UI automation efforts. These funds would support development of the field office automation software and purchase of equipment for field offices in the Los Angeles area.

Our analysis indicates that EDD is implementing the UI automation plan before it has fully evaluated all options that are available to the state. Specifically, we find that:

- ***EDD has not evaluated broad policy choices related to UI automation.*** The department did not study the various options available to the state in automating the UI program. Instead, the EDD developed a pilot project known as the California Automation of Services Project (CASP) to experiment with different methods of automating *current* UI operating procedures. Our review of the UI project indicates that there are a number of alternative ways to automate UI operations that have not been assessed by EDD, including the following:
  1. ***Centralize Administrative Operations.*** The department's current UI automation plan proposes to centralize some functions, but leaves other functions, such as the benefit claims process, decentralized. Alternatively, the EDD could centralize *all* UI operations, including the claims process. For example, instead of requiring all UI claimants to apply for benefits at a field office, initial claims could be mailed to central processing locations. Centralizing the entire operation—which is similar to the design planned for DI—would enable EDD to dramatically reduce the number of UI field offices needed to administer the program and, consequently, greatly reduce UI administrative costs. In addition, a mail-in claims process would eliminate the time that claimants currently spend standing in lines while waiting to apply for benefits at field offices.
  2. ***Facility Management.*** The department could contract with a private firm to administer the claims determination and check-writing operations, rather than administer these activities directly. Other state programs, such as the Medi-Cal program, have successfully contracted with private firms to verify program eligibility and make payments. Because private firms may be able to operate these functions less expensively than EDD, facility management holds the promise of reducing UI administrative costs.
- ***UI Design is Constantly Changing.*** Our review found that the department makes major changes almost monthly in its proposed design of the UI automation system. For example, the original plan proposed to continue the decentralized administrative structure of UI operations. Under that design, claims processing, check writing, and fraud investigation would continue to take place in the field offices. Since the original design was completed, however, component parts of the system have been redesigned in order to centralize the check writing and fraud investigation activities. The scope of the automation plan has changed, as well. Originally, 62 field offices were slated for

automation because these offices—representing 46 percent of all UI field offices—handled 66 percent of the UI workload. Since that time, the EDD revised the plan so that all 134 UI offices are to be automated. While revising an automation plan is unavoidable during the implementation process, major design features generally should not change after the FSR has been submitted to OIT. In the case of UI automation, so many major design revisions have been submitted to OIT that it is difficult to substantiate the cost-effectiveness of the current proposal.

- ***UI and DI Projects Need to be Implemented Together.*** The department proposes to design virtually identical UI and DI automation projects. For example, the automated claim determination, benefit payment and accounting processes proposed for these systems are identical. In order to quickly implement the UI project, however, EDD plans to carry out these projects separately. As a result, separate contracts will be let to design the component parts of the two systems. In our discussions, EDD agreed that it would be cost effective to include similar components of the two systems in the same bidding package. In addition, implementing UI and DI automation simultaneously would help coordinate operation of the two automated systems so that each would operate independently, yet use the same data bases and operating systems.
- ***EDD Has Not Justified the Need for an On-Line System.*** In its FSR, EDD recommends automating field offices with an on-line system linked directly with EDD files in Sacramento. Under this proposal, data would be fed throughout the day from the field offices to Sacramento. Our analysis indicates that such a design is exceedingly expensive, largely because telephone lines must be secured in order to transmit data immediately between the field offices and Sacramento. The FSR proposes—and rejects without analysis—an alternative that would collect all UI data during the day in a computer in each field office and then feed it to Sacramento each night in order to update central files. The department indicates that such a system would not detect a person who claimed UI benefits in two offices on the same day. Unfortunately, the FSR did not adequately assess whether double-claiming is a significant problem, whether there are other ways of surmounting this problem, or what the cost would be. Until EDD seriously evaluates the alternatives to the on-line system, the need for the system cannot be established.

Delay Implementation of the UI Automation Project. In light of the many uncertainties surrounding the UI automation project, we believe that EDD should delay implementation of the plan until it has examined the broad policy options for administering the UI program that are available to the state. Delaying the project *would not halt all progress on the combined UI/DI/tax automation system.* On the contrary, EDD could implement tax collection automation, which is a $8.2 million project.

We believe that delaying the UI component of the project would allow significant benefits to be realized. Delay would (1) allow EDD to focus its resources on implementing a comprehensive redesign of tax collection automation systems and (2) provide EDD with the time needed to reassess its UI automation design, consider the broad options to the state, and propose a comprehensive, coherent UI design in 1986–87. While implementation would be delayed by one year, the payoff would more than offset the cost of delay: an improved UI automation design that will shape UI operations for years to come.

For these reasons, we recommend that the Legislature (1) delete from the Budget Bill $2.8 million requested from the EDD Contingent Fund for UI automation in 1985–86 and (2) adopt Budget Bill language requiring EDD to conduct a study evaluating the options available to the state in automating the UI program. The following language is consistent with this recommendation:

"The Employment Development Department shall, by December 1, 1985, submit to the Legislature a report describing the options available to the state for improving the efficiency of the UI program by automating the administration of UI activities. It is the intent of the Legislature that this study provide the data for future funding of UI automation projects. Among the options evaluated in this study, the EDD shall include (1) private sector administration of various components of UI operations, (2) centralizing all UI operations including the benefit claims process through the use of mail-in claims, and (3) an automated field office using a distributed data processing design that includes overnight update of central UI files. Additional options should also be included in this study. The department should include a complete assessment of the costs and benefits of each alternative, as well as a complete explanation of the factors leading to the department's recommendation."

Reed Act Funds Available

We recommend that $2.7 million from the federal Reed Act fund be used in lieu of a corresponding amount from the EDD Contingent Fund to support EDD automation activities in 1985–86 (reduce Item 5100-001-185 by $2,683,000; increase Item 5100-001-870 by $2,683,000).

The 1985–86 budget proposes to spend $2.7 million from the EDD Contingent Fund to support automation of EDD's tax collection operations. The department indicates that these funds will provide partial support for a contract to redesign the EDD automated tax collection accounting system discussed above. The EDD Contingent Fund is supported by fines and penalties levied under the UI and DI programs. Under current law, there are no restrictions on the use of EDD Contingent Fund support, except that these funds may not supplant available federal funds.

As discussed above, federal Reed Act funds are available for the support of automation activities in the UI program. In its report to the Legislature required by AB 1654, EDD indicated that $4.2 million in Reed Act funds would be used to support automation of tax collection operations in 1985–86. The 1985–86 budget, however, does not include support from the Reed Act for tax collection automation. According to the EDD, the Reed Act balance currently totals $6.5 million. The department proposes no use for these monies.

Our review of the tax collection automation project indicates that Reed Act funds are a more appropriate source of support than EDD Contingent Fund money, for two reasons. First, using the EDD Contingent Fund to support the project when Reed Act support is available comes dangerously close in our view to using EDD Contingent Fund support to supplant federal Reed Act funds. Second, EDD Contingent Fund monies can be used by the Legislature for other purposes, while Reed Act support may *only* be used for automation or capital outlay projects relating to the UI

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program. If Reed Act funds are used to replace a like amount of support from the EDD Contingent Fund, the amount of money available to the Legislature for allocation in accordance with its priorities will be increased in 1985–86. Therefore, we recommend that $2,683,000 from the Reed Act fund be used in lieu of a like amount from the General Fund in financing EDD's automation efforts for 1985–86.

Substitute EDD Contingent Fund for General Fund

We recommend that $18,320,000 from the EDD Contingent Fund be used in lieu of a corresponding amount requested from the General Fund to support EDD programs in 1985–86, for a General Fund savings of $18,320,000. (Reduce Item 5100-001-001 by $18,320,000 and increase Item 5100-001-514 by $18,320,000.)

If our recommendations on the technical budgeting and automation issues are approved, they would free up $12,406,000 in EDD Contingent Fund monies. This amount consists of:

- $4,702,000 from the EDD Contingent Fund that would be replaced by $3.2 million in federal UI administrative funds and $1.5 million in federal funds for the Employment Service program.
- $7,704,000 in EDD Contingent Fund support for automation projects that will not be needed.

In addition, EDD estimates that the Contingent Fund's unobligated balance on June 30, 1986 will be $5.9 million higher than the amount shown in the budget. The department advises that it does not have an expenditure plan for these unbudgeted funds.

Thus, a total of $18.3 million from the Contingent Fund is available for use in the budget year.

The Budget Bill includes language reverting the unobligated balance in the EDD Contingent Fund to the General Fund at the close of the 1985–86 fiscal year. The problem with this course of action is that it would not enable the Legislature to use the funds to achieve its priorities during 1985–86. Therefore, in order to increase the Legislature's fiscal flexibility, we recommend that $18,320,000 from the EDD Contingent Fund that EDD does not need in order to efficiently administer its programs in the budget year be used in lieu of a like amount from the General Fund to finance EDD's budget in 1985–86.

JOB TRAINING PARTNERSHIP ACT

In 1982, the Congress enacted the Job Training Partnership Act (JTPA) in order to provide employment and training assistance to disadvantaged adults and youth, displaced workers, veterans, and migrant and seasonal farmworkers. The federal legislation requires both state and local government participation in the implementation and operation of JTPA programs. The JTPA replaced the Comprehensive Employment and Training Act (CETA).

The JTPA has five titles: Title I defines the administrative structure for the JTPA; Title II establishes the adult and youth training programs; Title III establishes the displaced worker programs; Title IV establishes four federally administered employment and training programs; and Title V reauthorizes the Employment Service program.

The Budget Shows Federal Support for JTPA Increasing

Table 8 shows the amount of federal funds expected to be available to California under the JTPA in the current and budget years. The budget proposes to use $317.4 million in federal JTPA support during 1985–86. This is $3.6 million, or 1.2 percent, above estimated current-year expenditures under the program.

Table 8
Employment Development Department (EDD)
Job Training Partnership Act
Federal Funding Levels in California
1984–85 and 1985–86
(dollars in thousands)

Program	*Estimated 1984–85*	*Proposed 1985–86*	*Change from 1984–85 to 1985–86*	
			Amount	*Percent*
Title II—Local programs:				
Adult and youth programs	$161,434	$161,434	—	—
Summer youth programs	75,372	75,372	—	—
Subtotals	$236,806	$236,806	—	—
Title II—State programs:				
Vocational education	16,562	17,389	$827	5.0%
Incentive grants	12,444	13,048	604	4.9
Administration	10,804	11,158	354	3.2
Older workers	6,209	6,519	310	5.0
Title III—Displaced workers	30,220	31,726	1,506	5.0
Title IV—Veterans	762	800	38	5.0
Subtotals	$77,001	$80,640	$3,639	4.7%
Totals	$313,807	$317,446	$3,639	1.2%

The increases in funding proposed for the budget year are concentrated in those JTPA program components that are under the state's control. For example, the EDD proposes 5 percent increases in support for vocational education linkages and programs for older workers, displaced workers, and veterans. As the table shows, EDD projects no increase in support for local adult and youth programs or in support for local summer youth programs. Thus, the $3.6 million increase projected in the 1985–86 budget would raise the amount of funds available for state-directed JTPA programs by 4.7 percent, to $80,640,000.

State Council Has Not Reviewed 1985–86 Budget Proposal

We withhold recommendation on $80.6 million in federal JTPA funds requested for 1985–86, pending the receipt of an administrative and program budget approved by the Job Training Coordinating Council.

The state Job Training Coordinating Council (JTCC) is required by state law to review and approve the allocation of JTPA funds received by the state. The council is also required to oversee the implementation of the act in California and to recommend policies for JTPA programs to the Governor.

The JTCC has not reviewed and approved the JTPA budget, as proposed by the department for 1985–86. For this reason, the budget document contains only a baseline budget for JTPA.

We believe it is important that the Legislature be presented with an accurate picture of how JTPA funds would be spent in 1985–86. This did

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

not happen in the current year. In fact, the JTPA budget for 1984–85 was altered significantly by the JTCC *after the budget committees had taken action on the budget.* As a result, the legislative review and approval accomplished little.

Accordingly, we withhold recommendation on the proposed $80.6 million in federal JTPA funds, pending receipt of a budget proposal that has been reviewed and approved by the state JTCC.

JTCC Goals and Strategies Remain Vague

Federal law requires the state to submit a Governor's Coordination and Special Services Plan every two years, as well as an annual statement of the Governor's goals and objectives for JTPA training programs. In our *Analysis of the 1984–85 Budget Bill,* we concluded that the Governor's goals and objectives for JTPA were so general that they provided little guidance to local programs on the state's priorities for employment and training services. We also concluded that the special services plan did not contain an identifiable and comprehensive state strategy for ensuring that the program is as effective as possible in providing training to the unemployed in California.

To ensure that it was adequately informed of the council's proposed goals and strategies for 1985–86, the Legislature adopted supplemental report language requiring the council to submit the proposed state strategy for implementing the JTPA in California in 1985–86. Specifically, the JTCC was required to report on how the state:

- Encourages integration of JTPA component programs at the local level.
- Allows JTPA programs to complement services provided by other state employment and training programs.

Council Response Not Complete. The council submitted a report in response to the supplemental report requirement. The council's report outlines four major goals for state administration of JTPA, as follows:

- To create linkages between JTPA and other state employment and training programs.
- To emphasize the development of cost-effective local training programs.
- To emphasize private-sector involvement in JTPA.
- To coordinate JTPA training and state and local economic development activities.

The council's report, however, does not identify a strategy for achieving these goals. Instead, the JTCC *asserts* that the state strategy is clearly articulated in four documents: the special services plan and the planning instructions for the service delivery areas (SDAs) under the Adult and Youth program (Title IIA), the Summer Youth program (Title IIB), and the Displaced Worker program (Title III). *The JTCC never states what that strategy is.*

Our review of the four documents cited by the JTCC did not reveal a clear and consistent strategy towards achieving the state's JTPA goals. As a result, we conclude that the council's response does not comply with the Legislature's intent in adopting the supplemental report language.

In order to provide the Legislature with additional information on the state JTPA strategy, we asked the Job Training Partnership Office (JTPO) —the entity within EDD that administers JTPA for the council—to provide supplementary data on the state's activity in achieving the council's goals. For instance, we asked how local JTPA programs are coordinated with other EDD employment and training programs, such as the Job Service, Work Incentive (WIN), Job Agents, and Service Center programs —all of which provide services to the same group of individuals as JTPA. The JTPO indicated that the following activities have taken place:

- ***Joint Development of Local Plans.*** Local JTPA and Job Service plans were developed at the same time, with the intent of preventing duplication and fostering coordination between the two programs. This joint planning is required by federal law.
- ***Coordination Staff.*** Job Service staff are available to work with SDAs to facilitate coordination.
- ***SDAs Kept Informed.*** The JTPO sends copies of Job Service directives and bulletins to JTPA program operators so that local administrators are informed of EDD's policies.

State Could Increase Coordination Activities and Incentives

We recommend that, prior to budget hearings, the JTCC and EDD submit to the fiscal committees a detailed plan for accomplishing the goals for JTPA established by the council. We further recommend that this report include a discussion of both the administrative requirements and fiscal inducements proposed by the JTCC to achieve its goals.

Our analysis indicates that the coordination activities required by EDD and the council would not effectively link employment and training programs at the local level in 1985–86. We base this conclusion on the following findings:

- ***Joint Development of Local Job Service Plans.*** Neither EDD nor the JTCC has defined the steps that local EDD offices and SDAs must take in order to satisfy the joint development requirement. As a result, the extent to which local coordination occurs depends on the willingness of both the SDA and the EDD district administrators and field office directors to cooperate.
- ***Coordination Staff.*** The staff positions that currently are used to facilitate coordination between the Job Service program and local JTPA program are proposed for elimination in 1985–86. Therefore, it is not clear how EDD will achieve linkages with local JTPA programs.
- ***Coordination with WIN, Job Agents, and Service Center Programs.*** Neither EDD nor the council requires coordination between the SDAs and the WIN, Job Agent, and Service Center programs. For instance, directives issued by EDD permit, but do not require, local WIN programs to develop procedures for referring WIN clients to JTPA training. In addition, no direction is provided to either EDD or SDAs on how to coordinate JTPA with the Job Agent and Service Center programs.

We believe that the council has the authority and the available tools necessary for increasing coordination between state and local employment programs. For example, the EDD and the council could:

- Define the steps that local EDD administrators and SDAs must take before they satisfy the "joint development" requirement in federal law. By defining these criteria, the state would ensure that specific activities were conducted in each area with the goal of coordinating JTPA with state employment programs.
- Use discretionary training, incentive, and technical assistance funds to

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

induce additional linkages between local programs. For instance, the council could provide additional funds to SDAs seeking to station employees in Job Service offices. Alternatively, the council could establish a new incentive category that would award SDAs for training AFDC recipients that are referred by the local WIN program.

Thus, although the council has identified coordination as a goal, it has taken few concrete actions to achieve coordination. In addition, our review of the council's activities in pursuit of its *other* goals (such as ensuring that SDAs have access to cost-effective training programs and strategies) suggests that the JTCC lacks a consistent plan for achieving them, as well. Therefore, we recommend that prior to budget hearings, the JTCC and EDD submit to the fiscal committees a detailed plan for achieving the council's goals in 1985–86. We further recommend that the plan include a detailed description of the administrative duties and fiscal inducements planned as part of the council's strategy for attaining its goals.

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY

Item 5100-301 from the Unemployment Compensation Disability Insurance Fund, the Unemployment Administration Fund, and the Federal Trust Fund — Budget p. HW 147

Requested 1985–86	$2,333,000
Recommendation pending	2,333,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. EDD Staff Reductions. Recommend that, by November 1, 1985, the department provide the Legislature with a plan for reducing headquarters office space and field office space to reflect the proposed staffing reductions. 899
2. Minor Projects. Withhold recommendation on Item 5100-301-870 and 5100-301-588, pending receipt of additional cost information on the department's minor capital outlay program. 900

ANALYSIS AND RECOMMENDATIONS

The budget proposes $2,285,000 from the Unemployment Administration Fund (transferred from the Federal Trust Fund) and $48,000 from the Unemployment Compensation Insurance Disability Fund for 24 minor capital outlay projects for the Employment Development Department (EDD).

Proposed Staffing Reductions Should Reduce Office Space Needs

We recommend that the department submit to the Legislature a plan for reducing headquarters and field office space to reflect the staffing reductions proposed for the current and budget years.

The EDD is currently in the process of reducing its staff. The 1984 Budget Act reduced total EDD staff by approximately 1,300 personnel-years, and the 1985–86 budget proposes further reductions totaling approximately 1,600 personnel-years. The department states that these reductions are made possible by the elimination of federal funding for various EDD programs, administrative efficiencies, automation, and declining caseloads.

A reduction of approximately 400 personnel-years is planned for the EDD central headquarters office in downtown Sacramento; the balance of the reductions will occur in the department's field offices. Obviously, these reductions will have a significant effect on the amount of office space that EDD needs at its Sacramento headquarters, and at its field offices throughout the state.

The department presently occupies a total of 488,000 net square feet (nsf) of state-owned office space in downtown Sacramento—324,000 nsf at 800 Capitol Mall, 109,000 nsf at the Site 3 five-story building and 55,000 nsf at the Site 3 underground building. Using the state's space planning ratio of 150 nsf of space per person, a reduction of 400 personnel-years could result in the release of approximately 60,000 nsf in these buildings. This would make it possible for the EDD to vacate the Site 3 underground building and consolidate its operations within 800 Capitol Mall and the 5-story portion of the Site 3 building. The reductions planned for EDD field offices should have an equally significant effect on space requirements.

According to the Department of General Services, the state leases approximately 3.3 million square feet of private office space in the Sacramento area. The current monthly cost of this space ranges from $1.00 to $1.65 per nsf. Thus, the use of the 60,000 nsf of state-owned space to be freed up in Sacramento in lieu of leased space would result in annual savings to the state of between $700,000 and $1,200,000.

Consequently, we recommend that the Employment Development Department, in concert with the Department of General Services, prepare a plan for reducing the amount of space it occupies—both in Sacramento and in field offices statewide. At a minimum, this report should include information on the following:

- The specific number of *positions* which will be eliminated from the Sacramento headquarters complex and from the EDD field offices, and any additional position reductions which are anticipated in future years.
- A detailed plan for consolidating central headquarters office space following the proposed position reductions. This plan should give consideration to the option of vacating the Site 3 underground building.
- The effect of current and budget year staff reductions on space needs in EDD field offices. Specifically, the department should consider (1) the potential for consolidating field offices, and (2) reducing the size of field offices when entering into new lease agreements.

The department should submit this plan to the Legislature by November 1, 1985.

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY—Continued

Minor Capital Outlay

We withhold recommendation on Items 5100-301-870 and 5100-301-588, pending receipt of a revised minor capital outlay program from the department reflecting recent cost estimates prepared by the Department of General Services.

The budget includes $2,285,000 under Item 5100-301-870 for 23 minor projects ($200,000 or less per project) at various EDD field offices and $48,000 under Item 5100-301-588 for one minor project at the Santa Ana field office.

The EDD's minor capital outlay program, as budgeted, does not reflect current cost estimates prepared by the Department of General Services (DGS). The DGS project estimates vary significantly from the estimates prepared by the EDD, and in the case of three projects the estimated cost exceeds the $200,000 limit for minor capital outlay. Using the DGS's estimates, there are not sufficient funds in the budget to finance the proposed program.

It is our understanding that the EDD and the Department of Finance are attempting to reconcile these estimates and that appropriate changes may be proposed through a Department of Finance amendment letter. Under the circumstances, we withhold recommendation pending receipt of additional information from those departments.

EMPLOYMENT DEVELOPMENT DEPARTMENT—REAPPROPRIATION

Item 5100-490 from federal funds Budget p. HW 133

ANALYSIS AND RECOMMENDATIONS

We recommend adoption of Budget Bill language (1) identifying the amount of funds estimated to be carried over from the current year into 1985–86 and (2) requiring the Employment Development Department to notify the Legislature of the actual amount carried over from the current year. We further recommend that, prior to budget hearings, EDD inform the fiscal committees of the amount of JTPA local assistance funds it expects to carry forward into 1985–86.

This item reappropriates local assistance funds for employment and training programs under the federal Job Training Partnership Act (JTPA). The item would allow EDD to carry forward into 1985–86 all JTPA local assistance funds which are unexpended in the current year. Without this language, EDD would be required to notify the Legislature of its intent to carry over these funds through the process established by Section 28 of the Budget Bill.

Our analysis indicates that establishing a reappropriation item for these federal funds is appropriate for two reasons. First, the JTPA funds are all federal funds. There are no state funds that might be recaptured if not spent. Second, the state has no direct programmatic authority over these funds. The state's role is limited to passing the JTPA funds from the federal government to the local program operators.

Our review also indicates, however, that additional language is needed in order to inform the Legislature of the amount of funds being carried forward. For example, the language does not contain an estimate of the amount of funds to be carried forward into 1985–86. The Employment Development Department (EDD) advised us that it has not developed an estimate of the amount of funds it expects to be carried over into the budget year.

In addition, EDD's proposed language does not require the department to notify the Legislature of the actual amount of funds that are carried forward. Without such notification, the Legislature would not be able to track the expenditure of local JTPA funds from year to year.

Therefore, in order to provide this information to the Legislature, we recommend adoption of Budget Bill language (1) identifying the amount of funds that EDD projects will be carried forward into the budget year and (2) requiring EDD to notify the Legislature of the actual amount of JTPA funds carried over into the current year. In addition, we recommend that, prior to budget hearings, EDD provide the fiscal committees with its best estimate of the amount of JTPA local assistance funds to be carried forward into 1985–86.

The following language is consistent with the recommendation:

"Adult and Youth Training: $________

"Summer Youth Training: $________

"The Employment Development Department shall notify the Legislature by December 1, 1985, of the actual amount of 1984–85 federal Job Training Partnership Act local assistance funds that are carried forward into 1985–86 for expenditure."

Health and Welfare Agency

DEPARTMENT OF REHABILITATION

Item 5160 from the General Fund and Federal Trust Fund — Budget p. HW 148

Requested 1985–86	$82,747,000
Estimated 1984–85	75,128,000
Actual 1983–84	61,175,000
Requested increase (excluding amount for salary increases) $7,619,000 (+10.1 percent)	
Total recommended reduction	336,000
Recommendation pending	$60,811,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5160-001-001—Support	General	$17,918,000
5160-001-890—Support	Federal Trust	(91,920,000)
5160-001-942—Support	Vending Stand Account	(1,285,000)
5160-101-001—Local assistance	General	64,829,000
Total		$82,747,000

DEPARTMENT OF REHABILITATION—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Proposed Staff Reductions. Recommend that, prior to budget hearings, the Department of Rehabilitation (DOR) submit to the fiscal committees information (a) demonstrating that specified workload can be absorbed by remaining staff, (b) indicating the effect of reduced levels of services associated with specified staff cuts, and (c) demonstrating that using funds to purchase rehabilitation services is more cost-effective than assigning state staff to supply those services directly. 906
2. ***Attrition Blanket. Reduce Item 5160-001-001 by $228,000 and Item 5160-001-890 by $912,000.*** Recommend elimination of 42 positions and $1.1 million ($228,000 from the General Fund and $912,000 in federal funds) proposed for the support on an attrition blanket. Further recommend adoption of Budget Bill language prohibiting the department from redirecting field office support to the central office in order to fund positions that are proposed for deletion. 907
3. ***Technical Budgeting Issues. Reduce Item 5160-001-001 by $108,000 and Item 5160-001-890 by $428,000.*** Recommend deletion of $536,000 ($108,000 from the General Fund and $428,000 in federal funds) in departmental support to correct for technical budgeting errors. 908
4. Cooperative School Programs. Reduce Item 5160-001-890 by $3.9 million (federal funds) and reimbursements by $560,000. Recommend deletion of $4,424,000 budgeted for cooperative programs with local school districts. Further recommend adoption of Budget Bill language (a) limiting the cooperative school programs to a pilot program in 1985–86 and (b) requiring the department to report to the Legislature on the success of the pilot programs. 910
5. Available Federal Funds. Recommend that, prior to budget hearings, the department advise the fiscal committees how it would use $7.1 million in federal vocational rehabilitation funds. 912
6. Work Activity Program Caseloads. Withhold recommendation on $60.8 million proposed for the Work Activity program (WAP) pending the receipt of information on funding level needed to support expected WAP caseload in 1985–86. Further recommend adoption of Budget Bill language requiring the department to report to the Legislature twice each year on projected WAP caseloads. 913
7. WAP Eligibility Reviews. Recommend the department report to the fiscal committees on the impact of eligibility reviews on (a) eligibility of current WAP clients and (b) projected program caseloads in 1985–86. 915

GENERAL PROGRAM STATEMENT

The Department of Rehabilitation (DOR) assists disabled persons to achieve social and economic independence by providing vocational rehabilitation and habilitation services. Vocational rehabilitation services seek to place disabled individuals in suitable employment. Habilitation services help individuals who are unable to benefit from vocational rehabilitation achieve and function at their highest levels.

Vocational rehabilitation services are provided by the department's counselors and by nonprofit organizations. Counselors (1) evaluate applicants for services, (2) work with clients to develop their rehabilitation plans, (3) authorize the purchase of services necessary to implement the plans, (4) supervise the progress of each client in their caseload, and (5) follow-up to verify rehabilitation. Nonprofit organizations, which include sheltered workshops, facilities for the deaf and blind, and independent living centers, provide counseling, job development, placement and supportive services.

Habilitation services are provided by the Work Activity program to adults who are developmentally disabled. The department purchases services from community-based work activity centers in order to help clients achieve their highest level of functioning and live independently. The objectives of work activity centers are to (1) provide clients with work stability in sheltered employment, (2) increase their vocational productivity and earnings, and (3) to the extent possible, develop their potential for competitive employment. Clients may move into competitive employment either from the work activity centers directly or through the department's vocational rehabilitation services. Habilitation services also include daily living and adjustment training for physically or mentally disabled persons who are not ready for, or who are unable to benefit from, vocational rehabilitation.

The 1984 Budget Act authorized 1,803.2 positions for the department in the current year. An additional 41 positions have been administratively established in order to avoid layoffs, bringing total authorized positions in 1984–85 to 1,844.2.

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

Expenditures	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*	*Change from 1984–85 to 1985–86* *Amount*	*Percent*
Vocational Rehabilitation	$84,269	$95,955	$100,658	$4,703	4.9%
Habilitation Services	42,394	54,158	61,081	6,923	12.8
Support of Community Facilities	5,690	7,303	7,645	342	4.7
Administration	10,806	12,014	11,604	−410	−3.4
Unallocated General Fund reduction	—	—	−502 [a]	−502	—
Totals	$143,159	$169,430	$180,486	$11,056	6.5%
General Fund	*$61,175*	*$75,128*	*$82,747*	*$7,619*	*10.1%*
Federal Trust Fund	*76,719*	*88,150*	*91,920*	*3,770*	*4.3*
Vending Stand Trust	*1,435*	*1,285*	*1,285*	—	—
Reimbursements	*3,830*	*4,867*	*4,534*	*−333*	*−6.8*

[a] Deletion of General Fund support for merit salary adjustments and inflation adjustments for operating expenses and equipment.

DEPARTMENT OF REHABILITATION—Continued

OVERVIEW OF THE PROPOSED BUDGET

The budget proposes an appropriation of $82,747,000 from the General Fund for support of the Department of Rehabilitation in 1985–86. This is an increase of $7,619,000, or 10.1 percent, above estimated current-year General Fund expenditures. This increase will grow by the cost of any salary or staff benefit increase approved for the budget year.

Total program expenditures, including expenditures from federal funds, special funds, and reimbursements, are proposed at $180,486,000, an increase of $11.1 million, or 6.5 percent, above estimated current-year expenditures. Table 1 displays program expenditures and funding sources for the prior, current, and budget years.

General Fund Request. Table 2 identifies the significant changes in expenditure levels proposed for 1985–86. Several of these changes are discussed later in the analysis.

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

- A 4 percent cost-of-living increase for the work activity program and independent living centers ($2,272,000).
- A $1.0 million increase in General Fund support to independent living centers pursuant to Ch 1566/84.
- A $264,000 increase in General Fund support to replace federal support for Project Interdependence because the project was ruled ineligible for federal Vocational Rehabilitation funding.

The budget proposal does not include any funds for the estimated cost of General Fund merit salary increases ($28,000) or inflation adjustments for operating expenses and equipment ($474,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

ANALYSIS AND RECOMMENDATIONS

Department Proposes Significant Position Reductions

The DOR proposes to eliminate 164.4 positions in 1985–86. This proposal involves staff cuts in support for both administrative and program activities. Specifically, the department proposes to (1) reduce central office staff in Sacramento by 42.8 positions, or 11.8 percent, and (2) delete 121.6 positions assigned to providing services under the Vocational Rehabilitation program, or 8.7 percent of the department's field office staff.

The budget document, however, shows only 126.4 positions being deleted in 1985–86. This is because the budget proposes establishment of a 42-position "attrition blanket," which would provide the department with a source of funds to pay those persons occupying positions proposed for deletion in the event staff reductions do not occur as quickly as planned. Funding for the blanket totals $1,140,000 ($228,000 from the General Fund and $912,000 in federal funds).

Table 3 shows where the staff reductions would occur. The table also classifies the reductions into two groups: (1) reductions that result from a more efficient use of personnel and (2) reductions that would reduce the services provided by DOR.

Table 2
Department of Rehabilitation
Proposed General Fund Budget Changes
1985–86
(dollars in thousands)

	Adjustments	*Totals*
1984–85 expenditures (revised)		$75,128
1. Cost adjustments		
a. Increase in existing personnel costs		
• Full-year cost of salary increase	$65	
• Positions expiring 1/1/85	–34	
Subtotal	$31	
b. Collective bargaining costs—DPA	$2	
c. Cost-of-living adjustment	2,272	
d. Project Interdependence funding	264	
Total, Cost Adjustments		$2,569
2. Reductions in statutory funding		
a. Independent living centers (Ch 1566/84)	–$750	
Total		–$750
3. Program change proposals		
a. Work Activity program caseload adjustments	4,800	
b. Independent living center augmentation	1,000	
Total, Program Change Proposals		$5,800
1985–86 Expenditures (proposed)		$82,747
Change from 1984–85:		
Amount		$7,619
Percent		10.1%

Table 3
Proposed Staffing Reductions Resulting from
Increased Efficiency or Reductions in Service
1985–86

	Efficiency Reductions		*Service Reductions*		*Total*	
Activity Affected	*Positions*	*Dollars*	*Positions*	*Dollars*	*Positions*	*Dollars*
Central office:						
Administration	12.8	$410,034	4.8	$155,471	17.6	$565,505
Program	13.8	434,998	11.4	430,132	25.2	865,130
District office:						
Program	—	—	121.6	4,493,632	121.6	4,493,632
Totals	26.6	$845,032	137.8	$5,079,235	164.4	$5,924,267

As Table 3 indicates, most of the reductions—84 percent (137.8 positions)—would result in reduced services to the disabled population. Both types of reductions are described below.

- ***Central Office—Administration.*** The budget proposes to reduce 17.6 positions from the DOR central administrative staff. The department indicates that the work currently performed by 12.8 of these positions can be absorbed by the remaining staff. Positions proposed for reduction as a result of administrative efficiencies include clerical help, support for legislative bill tracking, civil rights investigations, and personnel analysis. The remaining reductions proposed—those in planning and data processing support—would result in service reductions.

DEPARTMENT OF REHABILITATION—Continued

- *Central Office—Program.* The budget proposes to reduce 25.2 positions from support of programs administered by DOR's central office staff. According to DOR, 13.8 of these positions, or 55 percent, can be deleted from the Business Enterprise program, services for the blind, and other programs without affecting the current level of services. The remaining cuts, however, will reduce services provided under the Services for the Deaf program, Community Resource Development program, and programs aimed at eliminating physical barriers to the disabled from public school buildings.
- *District Office—Program.* The budget proposes to eliminate 121.6 positions currently supporting the operation of vocational rehabilitation programs throughout the state. These reductions include (1) the elimination of 33.0 staff currently administering the Program for the Industrially Injured and (2) a reduction of 88.6 positions currently providing vocational rehabilitation services to disabled individuals. The Program for the Industrially Injured supplies rehabilitation services for individuals covered by private insurance. The department is reimbursed for the services it provides under this program.

Legislature Needs Additional Information on Impact of Position Reductions

We recommend that, prior to the budget hearings, the department provide the fiscal committees with information (1) demonstrating that the work currently assigned to positions proposed for elimination on efficiency grounds can be absorbed by the remaining staff and (2) indicating the impact of reduced levels of services on those disabled persons that the department is serving. We further recommend the department provide information demonstrating that using funds to purchase rehabilitation services is more effective than assigning state staff to supply those services directly.

Central Office Efficiency Reductions. We requested data from DOR demonstrating that the workload associated with the positions proposed for deletion could be absorbed by the remaining staff. The department could not provide this information. As a result, we are unable to substantiate that the department can eliminate these positions without jeopardizing its ability to accomplish its legislatively established duties.

Central Office Service Reductions. We also requested information documenting the impact of the other central office staff reductions on the delivery of services to the department's clients. The DOR could not supply this information. Without these data, we are unable to determine the impact of these position reductions on those disabled persons that the department is supposed to serve.

District Offices: Elimination of the Program for the Industrially Injured. According to DOR, the effect of eliminating the industrially injured program will be minimal because the program's clients—who receive services at the expense of private insurance companies—can turn to private rehabilitation counselors to obtain the rehabilitation services they need in order to return to work. In addition, the DOR proposes to schedule $650,000 in reimbursements so that it can serve an unknown number of private rehabilitation clients, as well as certify individuals for eligibility under the federal Targeted Job Tax Credit.

Using information provided by DOR, we estimate that the department would need 10 positions to accommodate the workload represented by the

$650,000 in reimbursements. Since the entire Program for the Industrially Injured staff is proposed for elimination, however, these positions would have to be diverted from the federally funded Vocational Rehabilitation program. This additional reduction in staffing for the Vocational Rehabilitation program is discussed below.

District Offices: Reduced Services in the Vocational Rehabilitation Program. The DOR estimates that staff reductions in the Vocational Rehabilitation program would result in 880 fewer rehabilitations each year. In addition, if 10 additional rehabilitation staff are diverted to administer services under the Program for the Industrially Injured, we estimate an additional reduction of 240 rehabilitations each year. Thus, the total effect of the district office staff reductions would be to reduce the number of rehabilitations by 1,120 each year. This decrease represents approximately 6.6 percent of the rehabilitations expected to be achieved in the current year.

Unknown Effect of Purchased Services. The reduction in staff proposed by DOR would make approximately $4.0 million in vocational rehabilitation funds available for other purposes. The DOR plans to use these funds to increase the purchase of rehabilitation services from other public or private vendors. In essence, therefore, the department is proposing to eliminate state staff and use the funds to buy services from outside sources. The department could not indicate if purchasing these services is a more cost-effective way of providing rehabilitation services than using state staff. Thus, we do not know if the overall level of rehabilitation services will be maintained in the budget year or reduced. It is not apparent to us that the department knows either.

In light of the above, we do not believe the administration has provided the Legislature with sufficient information to permit meaningful consideration of the DOR's budget. For this reason, we are able to make no recommendation regarding the proposed staffing reductions, and instead recommend that, prior to the budget hearings, the department submit to the fiscal committees the following information:

1. Workload and productivity data substantiating DOR's claim that the work currently performed by those positions proposed for elimination on efficiency grounds can be absorbed by the remaining staff.
2. The effect on disabled individuals of the proposed reduction in services provided through programs administered from the department's central office.
3. The cost-effectiveness of purchasing rehabilitation services from others instead of supplying these services through the department's district office staff.

Attrition Blanket Provides Security

We recommend deletion of 42 positions and $1.1 million in federal vocational rehabilitation funds in order to increase support for services to disabled individuals. In addition, we recommend adoption of Budget Bill language prohibiting DOR from further reducing services to the disabled in order to generate funds to support central office positions that are proposed for deletion.

The 1985–86 budget proposes a $1.1 million attrition blanket. These funds would be used in the event attrition and other transfers of staff are not sufficient to reduce the department's staff support by the full 168.4 positions. This blanket, if approved, would give the DOR an attrition blanket for the third year in a row. In both 1983–84 and 1984–85, DOR

DEPARTMENT OF REHABILITATION—Continued

established a 40-position blanket to support central office positions that were deleted from the budget, but could not be reduced through attrition or transfers.

The funds for the 1984–85 blanket were made available by holding open field office positions that provide direct services. By keeping these positions open, the DOR was able to divert the funds budgeted for them to support the deleted central office positions. The department indicates that this was necessary because central office positions turn over more slowly than field office staff. *The net effect, however, is continuation of staff positions in the central office that the department does not believe are needed at the expense of disabled individuals.*

Thus, the budget presents the Legislature with essentially no choice. The Legislature can: (1) approve the attrition blanket, and *directly* fund positions that the department indicates are not needed for the administration of its programs with monies that would otherwise be used to increase services to the disabled population or (2) reject the establishment of the attrition blanket and risk the *indirect* funding of unnecessary positions by redirecting support for field office staff, thereby reducing the amount of services provided to disabled individuals.

We believe the Legislature has a third option: reject the establishment of an attrition blanket and, instead, adopt Budget Bill language prohibiting the department from redirecting support for salaries from the field offices to the central offices. This alternative would achieve the following benefits:

- Make available $1.1 million in vocational rehabilitation support to provide additional services to disabled individuals.
- Ensure that DOR maintains services provided through the field offices at the levels approved by the Legislature.
- Require the department to work hard to eliminate those jobs that it feels are not needed for the efficient operation of the vocational rehabilitation programs.

This option provides the department with less flexibility in achieving the staffing reductions. The DOR, however, would maintain sufficient flexibility in achieving the reductions. For example, DOR would still be able to redirect operating expenses allocated to central office operations to support deleted positions that could not be immediately vacated.

For these reasons, we recommend deletion of 42 positions and $1,140,000 in federal vocational rehabilitation funds proposed as support for the attrition blanket. We further recommend adoption of Budget Bill language under Item 5160-001-890 prohibiting the department from redirecting support for field office staff to fund positions in the department's central office.

The following language is consistent with this recommendation:

"No funds appropriated by this act for the support of programs administered through the Department of Rehabilitation's field offices shall be redirected for support of staffing or expenses incurred by its central office operations."

Technical Budgeting Recommendations

We recommend:

1. Deletion of $403,000 in salaries and wages. (Reduce Item 5160-001-001 by $81,000 and Item 5160-001-890 by $322,000.) The department did not account for the full reduction in salaries and wages that it would experience if all of the 164.4 positions proposed for reduction are deleted.

2. Deletion of $133,000 in support for employee benefits associated with the $403,000 in overbudgeted salaries. (Reduce Item 5160-001-001 by $27,000 and Item 5160-001-890 by $106,000.)

VOCATIONAL REHABILITATION SERVICES

The federal government provides financial support for the state's basic vocational rehabilitation services and for vocational rehabilitation services provided to eligible Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI) recipients. The federal government also funds grants to individual facilities and programs. The state is required to provide a match equal to 25 percent of the federal appropriations for the basic support program. Services to SSI and SSDI recipients are supported entirely by federal funds.

The budget proposes an expenditure of $111,925,000 from all funding sources for vocational rehabilitation services and associated administration in 1985–86. This is an increase of $4.3 million, or 4.0 percent, above estimated current-year expenditures. Of the total, $16,992,000 is from the General Fund, $89,114,000 is from federal funds, and $5,819,000 is from reimbursements and fees.

The budget also proposes to spend an additional $2.8 million in federal Vocational Rehabilitation Funds for grants to community facilities.

Changing Directions in the Vocational Rehabilitation Program

Traditionally, the Vocational Rehabilitation program has been administered by state staff through local DOR field offices. This method of providing these services is changing, however. Increasingly, the department provides vocational rehabilitation funds to programs that are administered by, or in conjunction with, other public agencies. Table 4 shows DOR expenditures for these cooperative programs. The budget proposes expenditures for cooperative programs totaling $9.8 million in 1985–86, an increase of $1.6 million, or 20 percent, above estimated 1984–85 funding levels.

Table 4
Federal Vocational Rehabilitation Funds
Funding for Cooperative Programs Increasing
(dollars in thousands)

Description	*1983–84 Actual*	*1984–85 Estimated*	*1985–86 Proposed*	*Change from 1984–85 to 1985–86 Amount*	*Percent*
School programs	—	$3,243	$4,864	$1,621	50
All other cooperative programs	$3,772	4,924	4,924	—	—
Totals	$3,772	$8,167	$9,788	$1,621	19.8
Percent of available federal funds	5.0%	9.5%	10.9%		

Table 4 shows that cooperative arrangements with schools account for the entire increase in expenditures for cooperative programs in 1985–86. As a result of this increase, 10.9 percent of all federal vocational rehabilitation funds will be used to support cooperative programs in the budget year. The department proposes to fund the cooperative school programs in order to help disabled high school, vocational, and college students more successfully acquire the skills needed to find a job. These programs—which are proposed to begin in the current year and continue in 1985–86—

DEPARTMENT OF REHABILITATION—Continued

would be administered by DOR in conjunction with local school districts, regional occupational centers and programs (ROC/Ps), and community colleges. Under these programs, local schools would provide the primary employment training and job placement assistance required by these students. The DOR staff would furnish additional counseling, training, and support services needed by the disabled students. In addition, the State Department of Education (SDE) and the Chancellor of the California Community Colleges would monitor and evaluate the effectiveness of these local programs.

The increasing level of support for local cooperative programs is not the only indication that the emphasis of the Vocational Rehabilitation program is changing. As discussed earlier, the department proposes to reduce field office staff by 121.6 positions. These staff reductions are *not* being driven by a cut in federal funding for the program. Instead, they are being proposed in order to implement a new policy of obtaining vocational rehabilitation services from nonstate providers. In sum, the increased reliance on cooperative programs and the proposed reductions in field office staff lead us to the conclusion that the traditional state-administered program is being reduced in favor of cooperative and other local rehabilitation programs.

Cooperative School Programs Need Pilot Testing

We recommend that the Legislature adopt Budget Bill language (1) implementing the proposed cooperative school programs on a pilot basis and (2) requiring the department to report to the Legislature on the success of the pilot program, based on its 1984–85 experience. We further recommend deletion of $3.9 million in federal vocational rehabilitation funds and $560,000 in excess reimbursements associated with the cooperative programs that will not be needed under the scaled-down pilot program.

In 1985–86, the department requests a total of $6,070,000 to support the school programs. Of this amount, $4,864,000 represents federal vocational rehabilitation funds and $1,206,000 would come from schools participating in the cooperative programs. Table 5 summarizes DOR's proposal for the cooperative school programs.

According to the department, these programs are intended to provide counseling and job placement services to disabled students earlier than they otherwise would receive such services. Generally, the department now serves the disabled after they experience trouble in finding a job. By entering into cooperative programs with schools, the department hopes to intervene earlier in the lives of the disabled and provide them with the counseling and training necessary to succeed in the local job market.

Cooperative Programs are Exceedingly Expensive. We believe that helping disabled youth develop and achieve realistic career goals while still in school makes sense. The department's proposed programs, however, are exceedingly expensive, in terms of the cost per rehabilitation. Table 5 shows that the average rehabilitation under the school programs will cost $10,100. In contrast, the cost per rehabilitation under the state-administered program averages $6,250. Based on these estimates, rehabilitations achieved by the school programs would cost $3,850, or 62 percent more than those developed by the basic Vocational Rehabilitation program.

Table 5
Cooperative School Programs Result in High-Cost Rehabilitations
1985–86

Program	*Total Cost*	*Number of Rehabilitations*	*Cost per Rehabilitation*
High School	$2,070,000	230	$9,000
Regional Occupation Center	2,500,000	230	10,900
Community College	1,500,000	140	10,700
Totals	$6,070,000	600	$10,100

The department indicates that the higher average cost of the school programs would be offset by long-term gains associated with these rehabilitations. Specifically, DOR believes that the cooperative programs will result in a "more successful" rehabilitation of disabled students. The department believes that this higher level of success will translate into lower welfare payments and other governmental expenditures targeted at unemployed disabled individuals. The department, however, was unable to provide us with information to substantiate this claim. As a result, we are unable to confirm that the higher initial costs of cooperative programs are more than offset by savings over time.

Department Should Pilot Test Its Proposal. We believe that before the cooperative school program is implemented on a broad scale, it should be tested to confirm that (1) these services effectively assist disabled students in securing employment and (2) program benefits are sufficiently large to offset the higher costs. In addition, a test would allow the department to develop ways of reducing the cost of these cooperative programs.

As proposed in the budget, however, the scope of the cooperative school program is much broader than necessary in order to test the cost-effectiveness of the program. Our analysis suggests that a cooperative program costing approximately $1.2 million ($960,000 in federal vocational rehabilitation funds, $240,000 in matching school support) would provide sufficient funding for pilot programs at each type of school—high school, ROC/P, and community college.

Accordingly, we recommend the adoption of Budget Bill language under Item 5160-001-890 implementing the cooperative school program on a pilot basis. We also recommend that the Budget Bill language require the department to report to the Legislature by November 15, 1985, on the costs and benefits of the cooperative school programs in 1984–85. We further recommend deleting $3.9 million in federal Vocational Rehabilitation funds and $560,000 in reimbursements that will not be needed under the scaled-down pilot project. These federal funds would still be available to DOR for providing services to disabled individuals. The use for these funds is discussed below.

The following Budget Bill language is consistent with this recommendation:

"The Department of Rehabilitation shall spend no more than $960,000 in federal vocational rehabilitation funds for program services to disabled youth through cooperative agreements with educational institutions. The department shall report to the Legislature by November 15, 1985, on the costs and benefits of providing services to disabled youth through such cooperative school programs in 1984–85. This report should include the following information:

"1. The total number of students receiving assistance under each

DEPARTMENT OF REHABILITATION—Continued

component program, by type of disability.

"2. The number of participants that find jobs, continue their education, drop out of the program, or become unemployed after receiving program services.

"3. A detailed list of the cost of each type of service provided under the program.

"4. A comparison of the costs and benefits of the pilot cooperative programs with those of the state-administered Vocational Rehabilitation program.

"5. Recommendations that will allow the department to reduce future program costs without reducing the effectiveness of program services."

Federal Funds Available to Increase Services to the Disabled

We recommend that, prior to budget hearings, the Department of Rehabilitation submit a plan to the fiscal committees describing how it will use $7.1 million in federal vocational rehabilitation funds that will potentially be available in the budget year.

To this point, we have made recommendations to delete $5,240,000 in federal vocational rehabilitation funds. These monies would still be available to DOR to meet the employment needs of the disabled population. In addition to these funds, there are $4.1 million in federal funds that are available for expenditure, but are not included in DOR's 1985–86 budget request. Thus, a total of $9,356,000 in unbudgeted federal funds may be available for use in the budget year to provide additional services to disabled individuals.

In our discussions with the department on this issue, the department indicates that:

- Increases in employee compensation provided in 1985–86 would account for about $2.3 million of these funds.
- Increases in federal funding levels assumed in the budget may not occur. The budget assumes a 6 percent, or $3.9 million increase in federal vocational rehabilitation funds in 1985–86. At the present time, however, it does not appear likely that many programs will receive funding increases in federal fiscal year (FFY) 1986. Instead, the Congress is likely to maintain—or perhaps even reduce—funding for most programs in FFY 1986.

Thus, depending on federal funding levels, we estimate that DOR would have between $3.2 million and $7.1 million in federal funds available to increase services in 1985–86. These funds, however, would need the 20 percent nonfederal match as required by federal law. Therefore, in order to ensure that the Legislature has an opportunity to review and approve the proposed use of all funds available to the department, we recommend that, prior to budget hearings, the department submit to the fiscal committees a plan describing (1) how it intends to use the $7.1 million in available federal funds and (2) alternative ways the state can provide the 20 percent match to the federal funds.

WORK ACTIVITY PROGRAM

The Work Activity Program (WAP) purchases sheltered employment services from community-based work activity centers for developmentally disabled adults. The purpose of the program is to prepare clients for employment, help them live independently, and provide them with prevocational training.

Accuracy of Caseload Estimates Show No Improvement

We withhold recommendation on $60.8 million in General Fund support requested for the WAP until the department has provided the Legislature with reliable estimates of the funding required to support the probable caseload for the WAP in 1985–86. We further recommend that the Legislature adopt Budget Bill language requiring the department to report twice each year on work activity caseload projections.

The budget proposes $60,811,000 in General Fund support for the WAP in 1985–86. Of this amount, $59,746,000 is proposed for local assistance grants to work activity centers, and $1,065,000 is for state administration of the program. This represents an increase of $6.9 million, or 12.8 percent, above the current-year level. This increase results from (1) an anticipated caseload increase of 1,670 clients above the *budgeted* level for the current year and (2) the cost of a 4 percent cost-of-living increase.

Full 4 Percent COLA Not Funded. The budget proposes to give local assistance items a 4 percent cost-of-living adjustment (COLA) in order to offset the effects of inflation in 1985–86. *The amount of funds included in the budget for WAP, however, is not sufficient to provide the full 4 percent increase.* Specifically, the budget proposes to provide a $2.1 million COLA for the program in 1985–86. This would provide a 3.6 percent COLA, instead of the 4 percent indicated in the budget document. In order to fully fund the WAP inflation adjustment, an additional $190,000 would be needed in Item 5160-101-001.

Accuracy of the Department's Caseload Projections in 1984–85. During the last few years, the Legislature has repeatedly questioned the reliability of DOR's caseload projections for the WAP. In response to this concern, the department in 1984–85 significantly improved its estimating process for generating WAP caseload projections.

In past years, the DOR tied estimates of future caseloads directly to the total number of regional center clients *anticipated* by the Department of Developmental Services. This estimating method caused significant errors in budgeting for the WAP. In 1984–85, however, the DOR estimates drew upon a wider range of data. For example, the department surveyed the directors of regional centers in order to determine the number of regional center clients who were expected to graduate to the WAP in the current year.

Although it recognized that improvements had occurred in the WAP estimating procedures, the Legislature directed the department in the *Supplemental Report of the 1984–85 Budget Act* to further improve its projections by incorporating the following data into the process:

- The program that new WAP clients were previously enrolled in. This information would permit a better understanding of where new clients come from.
- The number of referrals from regional center programs to the WAP. This data would allow the DOR to verify the accuracy of data used to forecast 1984–85 caseloads.

It also directed the department to work with the Departments of Education and Developmental Services to improve the quality of data used to estimate WAP caseloads.

Department's 1985–86 Caseload Estimates are not Credible. Based on our review, we conclude that the department has not made a serious attempt to estimate what the WAP caseloads will be in 1985–86. We base this conclusion on the following findings:

- ***The estimates do not incorporate any of the improvements the department used in developing the 1984–85 projections.*** In essence, the DOR simply extended past trends into the future, entirely disregarding various changes that could affect WAP caseloads.
- ***The estimating process did not use the data mentioned in Supplemental Report of the 1984 Budget Act.***
- ***The department's 1985–86 caseload estimates are based on the projected caseloads for 1984–85, and do not take into account actual 1984–85 caseloads to date.*** Based on actual caseload data through November 1984, we conclude that the WAP is serving an average of 1,100 fewer clients each month than the number estimated in the 1984 Budget Act. In addition, this gap between actual and estimated caseloads in the current year seems to be widening over time. This is because the *growth* in caseloads is significantly less than what was estimated.

  Because the department did not take these reductions in WAP caseloads into account when deriving the 1985–86 caseload estimates the budget request for WAP probably is significantly larger than what would be needed to fully fund the caseload. In fact, adjusting for the lower 1984–85 base caseload and the slower growth in new caseloads, we estimate that the WAP could be overbudgeted by $6.5 million, or 11 percent. Because the department's estimate does not account for other trends affecting WAP caseloads—such as the number of regional center referrals to the WAP—the degree of overbudgeted funds may be significantly higher or lower than this amount.

The department has acknowledged that the WAP is substantially overbudgeted for 1985–86. According to the department, the budget does not contain more reliable estimates because the budget process requires estimates so early in the fiscal year that the information necessary to make them more reliable is not available.

The DOR advises that it intends to improve its estimating process, and the results will be reflected in the May revision of the budget. Based on the department's past record in estimating WAP caseloads, however, we believe that DOR should adopt the procedures to track current caseloads, and to update projections of future caseloads. If the department makes only one serious attempt at projecting caseloads each year, it will take years for the department to accumulate the expertise needed to accurately estimate caseloads.

Because the department has not made a meaningful attempt at estimating the 1985–86 WAP caseloads, we cannot recommend approval of the department's request for the program. Therefore, we withhold recommendation on $60.8 million in General Fund support budgeted for the program, pending the receipt of a proposal incorporating the estimating improvements (1) used by the department in generating its 1984–85 estimates and (2) required by the *Supplemental Report of the 1984 Budget Act.* We further recommend the adoption of Budget Bill language requiring DOR to (1) report twice each year on current-year WAP caseload changes, and (2) inform the Legislature on the way in which these changes are likely to affect budget-year caseload estimates.

There is precedent for such a reporting requirement. The Legislature requires other state departments to report on caseload changes twice each year. The 1984 Budget Act, for instance, requires the Employment Development Department to report on Unemployment Insurance caseloads twice each year.

We believe this reporting requirement would provide a valuable update to the Legislature, as well as give DOR an opportunity to refine its estimating process. Moreover, this requirement would ensure that the WAP budget proposals are based on a rigorous examination of all pertinent information. The following language is consistent with this recommendation:

"The Department of Rehabilitation shall submit to the Legislature on October 1 and April 20 an estimate of the Work Activity program caseloads for both the current year and the budget year. This report shall include the assumptions and calculations underlying the estimates, and shall discuss any differences between the projected and actual caseloads for the same period of time. In addition, caseload estimates projected in these reports shall be determined using estimating procedures that incorporate the following information:

"1. The number of special education students that could realistically become Work Activity program clients.

"2. The number of regional center clients that are potential Work Activity program clients.

"3. The potential impact on Work Activity program caseloads of any planned release of clients from state hospitals."

Legislature Needs Information on the Effect of Eligibility Reviews

We recommend that, prior to the budget hearings, the department submit to the fiscal committees a report detailing the impact of the 3 percent eligibility reviews on (1) the eligibility of current work activity program clients and (2) program caseloads projected for 1985–86.

The Supplemental Report of the 1984 Budget Act requires the department to review the top 3 percent of functioning clients in the WAP, in order to determine whether these individuals are eligible for and more appropriately placed in the department's Vocational Rehabilitation program. At the time this analysis was prepared, the department had not completed these reviews.

In order to provide the Legislature with information on the impact of these reviews, we recommend that prior to budget hearings, the department submit a report to the Legislature analyzing the effect of the 3 percent eligibility reviews on (1) the eligibility of current WAP clients and (2) the caseloads projected for the budget year. This report also should include the following data:

1. A detailed description of the process used to select individuals for eligibility reviews, as well as a description of the review process.
2. The number of individuals reviewed.
3. The number of individuals referred to the Vocational Rehabilitation program for assessment.
4. The number of individuals terminated from the program as a result of the reviews.

DEPARTMENT OF REHABILITATION—Continued

Deaf Patient Interpreter Cost

The *Supplemental Report of the 1984 Budget Act* required DOR to submit a report to the Legislature by January 1, 1985, on the potential costs of providing interpreters for deaf Medi-Cal recipients when they are seen by a doctor. At the time this analysis was prepared, we had just received the report and, as a result, were in the process of reviewing it.

DEPARTMENT OF SOCIAL SERVICES
SUMMARY

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

Total expenditures of $8,110,916,000 are proposed for 1985–86, which is an increase of $636,638,000, or 8.5 percent, above estimated current-year expenditures. Table 1 indentifies total expenditures from all funds for programs administered by DSS, for the past, current, and budget years.

Table 1
Department of Social Services
Expenditures and Revenues, by Program
All Funds
1983–84 through 1985–86
(dollars in thousands)

Program	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86* [a]	*Change from 1984–85* *Amount*	*Percent*
Departmental support	$160,676	$175,352	$199,936	$24,584	14.0%
AFDC	3,257,490	3,452,661	3,752,274	299,613	8.7
SSI/SSP [b]	2,200,662	2,427,367	2,632,460	205,093	8.5
Special Adult programs	1,552	1,610	1,690	80	5.0
Refugee programs	75,518	48,264	46,168	−2,096	−4.3
County welfare department administration	613,448	662,830	695,441	32,611	4.9
Social services programs	589,434	696,321	772,679	76,358	11.0
Community Care Licensing	10,222	9,873	10,268	395	4.0
Local mandates [c]	(282)	(332)	(575)	(243)	(73.2)
Totals	$6,909,002	$7,474,278	8,110,916	636,638	8.5%
Funding Sources					
General Fund	*$2,955,450* [d]	*$3,265,793*	*$3,584,458*	*$318,665*	*9.8%*
Federal funds	*3,578,095*	*3,817,136*	*4,053,999*	*236,863*	*6.2*
Interstate Collection Incentive Fund	*600*	*600*	—	*−600*	*−100.0*
County funds	*361,392*	*383,431*	*463,787*	*80,356*	*21.0*
Reimbursements	*8,915*	*8,399*	*7,909*	*−490*	*−5.8*
State Children's Trust Fund	—	*−1,081*	*763*	*1,844*	*171.0*
Special Deposit Fund	*4,550*	—	—	—	—

[a] Includes proposed cost-of-living adjustments.
[b] Includes federal expenditures for SSI.
[c] Funding for local mandates is provided in the item for state-mandated local programs (Item 9680).
[d] Does not equal General Fund expenditure total reflected in the Governor's Budget ($2,925,083,000) due to a technical error in the budget document.

Table 2 shows the *General Fund* expenditures for cash grant and social services programs administered by DSS. The department requests a total of $3,584,458,000 from the General Fund for these programs in 1985–86.

DEPARTMENT OF SOCIAL SERVICES
SUMMARY—Continued

This is an increase of $318,665,000, or 9.8 percent, above estimated current-year expenditures.

Table 2
Department of Social Services
General Fund Expenditures
1983–84 through 1985–86
(dollars in thousands)

Program	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86* [a]	*Change from 1984–85* *Amount*	*Percent*
Departmental support	$47,616	$53,990	$56,875	$2,885	5.3%
AFDC	1,489,525	1,593,775	1,683,146	89,371	5.6
SSI/SSP	1,137,481	1,262,141	1,397,366	135,225	10.7
Special Adult programs	1,500	1,540	1,620	80	5.2
County welfare department administration	110,719	122,805	130,274	7,469	6.1
Social services programs	161,095	224,457	307,808	83,351	37.1
Community Care Licensing	7,514	7,085	7,369	284	4.0
Local mandates [b]	(282)	(332)	(575)	(243)	(73.2)
Totals	$2,955,450 [c]	$3,265,793	$3,584,458	$318,665	9.8%

[a] Includes proposed cost-of-living adjustments.
[b] Funding for local mandates is provided in the item for state-mandated local programs (Item 9680).
[c] Does not equal General Fund expenditure total reflected in the Governor's Budget ($2,925,083,000) due to a technical error in the budget document.

OVERVIEW OF ANALYST'S RECOMMENDATIONS

We are recommending a net reduction of $90,581,000 from the amount proposed for expenditure from all funds. Of this amount, we are recommending a reduction of $49,019,000 from the General Fund and $41,562,-000 in federal funds. In addition, we are withholding recommendation on $1,252,924,000 in proposed expenditures, pending receipt of additional information and further analysis.

Table 3
Department of Social Services
Summary of Legislative Analyst's Recommendations
(dollars in thousands)

Program	*Recommended Fiscal Changes* *General Fund*	*Federal Funds*	*All Funds*	*Recommendations Pending (All Funds)*
Departmental support	$2,048	−$109	$1,939	$947
AFDC	−36,853	−40,253	−77,106	—
SSI/SSP	−6,958	—	−6,958	1,247,084
Special Adults	—	—	—	—
Refugee programs	—	—	—	—
County Administration	−730	—	−730	2,040
Social Services	−4,705	300	−4,405	2,853
Community Care Licensing	—	—	—	—
Cost-of-living adjustments	−1,821	−1,500	−3,321	—
Totals	−$49,019	−$41,562	−$90,581	$1,252,924

Department of Social Services
DEPARTMENTAL SUPPORT

Item 5180 from the General Fund and Federal Trust Fund — Budget p. HW 157

Requested 1985–86	$55,229,000
Estimated 1984–85	53,990,000
Actual 1983–84	47,616,000
Requested increase (excluding amount for salary increases) $1,239,000 (+2.3 percent)	
Total recommended increase	2,048,000
Recommendation pending	691,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-001-001—Department of Social Services Support	General	$55,229,000
5180-001-890—Department of Social Services Support	Federal	($135,736,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Office Automation. Recommend that, prior to budget hearings, the Department of Finance and the Department of Social Service (DSS) (a) revise their cost-estimates for the Office Automation Project, based on costs included in the actual contract, and (b) advise the fiscal committees of the criteria that will be used in approving Phase I expenditures. Further recommend deletion of budget control language that proposes to give the department expenditure authority for the automation project in 1986–87. 923
2. *Title XX Audits. Reduce Item 5180-001-001 by $131,000.* Recommend that the Legislature reauthorize eight auditor positions and delete $131,000 from the departmental support appropriation, because it is less costly for department staff to audit Title XX expenditures than to contract with the State Controller for these audits. 925
3. Statewide Automated Welfare System (SAWS). Withhold recommendation on $512,000 ($256,000 from the General Fund and $256,000 in federal funds) proposed for support of the SAWS project, pending review of a status report on the project that is due March 1, 1985. 926
4. *Adoptions Program. Augment Item 5180-001-001 by $2,530,000.* Recommend augmentation for departmental support in order to restore funding for the staff assigned to the adoption program that the budget proposes to eliminate. 926
5. *Community Care Licensing Workload Standard Study. Reduce Item 5180-001-001 by $200,000.* Recommend reduction to eliminate funds for a contract to review community care licensing workload standards because the department has the capability and experience to conduct the study. 926

DEPARTMENTAL SUPPORT—Continued

6. Community Care Licensing Facilities Information System. Withhold recommendation on $435,000, pending receipt of a revised feasibility study report that provides additional information concerning the department's proposed information system. 927
7. ***Technical Recommendations. Reduce Item 5180-001-001 by $151,000 and Item 5180-001-890 by $109,000.*** Recommend reduction of $260,000 in order to correct for overbudgeting. 928

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers income maintenance, food stamps, and social services programs. The department is also responsible for (1) licensing and evaluating nonmedical community care facilities and (2) determining the medical/vocational eligibility of persons applying for benefits under the Disability Insurance program, Supplemental Security Income/State Supplementary Program (SSI/SSP), and Medi-Cal/medically-needy program.

The department is authorized 3,490 positions to administer these programs in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $56,875,000 from the General Fund for support of the department in 1985–86. This is an increase of $2,885,000, or 5.3 percent, above estimated current-year expenditures. The proposed expenditures from the General Fund include an appropriation request of $55,229,000 and $1,646,000 in previously appropriated funds.

The budget proposes expenditures from all funds including reimbursements of $199,936,000. This is $24,584,000, or 14 percent, above estimated current-year expenditures. The increase will grow by the cost of general salary or staff benefit increases that may be approved for the budget year.

The budget does not include any funds for the estimated cost of merit salary increases ($43,000 in 1985–86) or inflation adjustments for operating expenses and equipment ($532,000). Presumably, these costs will be financed by diverting funds budgeted for other purposes.

Table 1 identifies the department's expenditures, by program and funding source, for the past, current, and budget years.

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

Program	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*	*Change from 1984–85 Amount*	*Percent*
AFDC-FG/U	$14,388	$16,866	$18,445	$1,579	9.4%
AFDC-FC	4,146	4,350	4,272	−78	−1.8
SSI/SSP	1,010	1,032	1,070	38	3.7
Special Adult programs	186	156	166	10	6.4
Food Stamps	14,151	16,882	17,376	494	2.9
In-Home Supportive Services	1,852	2,759	2,865	106	3.8
Other County Social Services	3,700	4,175	4,235	60	1.4

Adoptions	5,336	6,697	4,268	−2,429	−36.3
Maternity Care	37	47	53	6	12.8
Child Abuse Prevention	1,115	1,309	1,577	268	20.5
Community Care Licensing	15,871	20,467	22,114	1,647	8.0
Refugee programs	1,846	2,517	2,707	190	7.5
Disability Evaluation	75,457	82,949	83,203	254	0.3
Services to other agencies	12,101	4,502	4,522	20	0.4
County Data Systems	981	949	—	−949	−100.0
Child Support	5,395	6,037	6,341	304	5.0
Access Assistance for the Deaf	208	146	170	24	16.4
Work Incentive	909	991	24,131	23,140	2,335.0
Refugee Services	1,987	2,521	2,421	−100	−4.0
Totals	$160,676	$175,352	$199,936	$24,584	14.0%
Funding Sources					
General Fund	*$47,616*	*$53,990*	*$56,875* [a]	*$2,885*	*5.3%*
Federal funds	*99,595*	*113,000*	*135,750* [b]	*22,750*	*20.1*
Reimbursements	*8,915*	*8,399*	*7,309*	*−1,090*	*−13.0*
State Children's Trust Fund	—	*−37*	*2*	*39*	*105.4*
Special Deposit Fund	*4,550*	—	—	—	—

[a] Includes expenditures of $55,229,000 requested in the 1985–86 Budget Bill and $1,646,000 available from prior appropriations.

[b] Includes expenditures of $135,736,000 requested in the 1985–86 Budget Bill and $14,000 available from prior appropriations.

Proposed General Fund Changes

Table 2
Department of Social Services
Departmental Support
Proposed General Fund Changes
1985–86
(dollars in thousands)

1984–85 expenditures (revised)		$53,990
Proposed changes		
A. Workload adjustments		
1. Increased child day care licensing activities pursuant to Ch 1615/84	$1,134	
2. Increased community care licensing caseload	99	
3. Increased child abuse prevention activities pursuant to Ch 1618/84 and 1638/84	152	
4. Expiration of limited-term positions	−673	
5. Other workload adjustments	81	
B. Cost adjustments		793
1. Full-year cost of 1984–85 salary and benefit increases	$325	
2. Increased cost of CALSTARS	143	
3. Other cost adjustments (net)	68	
C. Program adjustments		536
1. Transfer state adoption programs to counties	−$2,530	
2. Transfer WIN from EDD to DSS	2,312	
3. Various workload increases	1,111	
4. Various automation projects	901	
5. Elimination/reduction of low-priority services and activities	−408	
6. All other	170	
		1,556
1985–86 expenditures (proposed)		$56,875
Changes from 1984-85:		
Amount		$2,885
Percent		5.3%

DEPARTMENTAL SUPPORT—Continued

Table 2 shows the changes in the department's General Fund support expenditures that are proposed for 1985–86. Several of the individual changes proposed are discussed later in this analysis.

Proposed Position Changes

The budget requests authorization for 3,323.1 positions to staff the department in 1985–86. This is a net decrease of 37.9 positions, or 1.1 percent, below the staffing level that would otherwise be authorized in the budget for 1985–86. The net decrease reflects a proposed reduction of 163.9 positions and a proposed increase of 126.0 positions. The largest single decrease—73 positions—reflects the administration's proposal to transfer the state adoptions programs to the counties. The largest increase is the one proposed for the Community Care Licensing program because of increased programs and caseloads. Table 3 displays the changes in positions proposed for 1985–86.

Table 3
Department of Social Services
Departmental Support
Proposed Position Changes
1985–86

Program	*Current Authorized Positions*	*Reductions*	*Additions*	*Total Proposed Positions*	*Net Change Positions*	*Net Change Percent*
AFDC-FG/U	242.0	−9.9	15.5	247.6	5.6	2.3%
AFDC-FC	120.6	−1.6	22.4	141.4	20.8	17.2
AFDC-Child Support Enforcement	70.6	−1.9	6.5	75.2	4.6	6.5
SSI/SSP	26.7	−0.5	—	26.2	−0.5	−1.9
Special Adult programs	2.0	—	—	2.0	—	—
Food Stamps	294.6	−9.5	5.6	290.7	−3.9	−1.3
Refugee programs	46.1	−3.1	0.3	43.3	−2.8	−6.1
Disability Evaluation	1,628.9	−27.0	—	1,601.9	−27.0	−1.7
In-Home Supportive Services	77.2	−7.3	0.3	70.2	−7.0	−9.1
Other County Social Services	94.3	−5.1	—	89.2	−5.1	−5.4
Adoptions	136.9	−77.8	—	59.1	−77.8	−56.8
Child Abuse Prevention	15.1	−1.1	13.0	27.0	11.9	78.8
Community Care Licensing	455.6	−12.9	57.5	500.2	44.6	9.8
Services to other agencies	82.4	−1.9	4.9	85.4	3.0	3.6
Maternity Care	3.8	−0.1	—	3.7	−0.1	−2.6
WIN	15.8	−0.3	—	15.5	−0.3	−1.9
Refugee Services	48.4	−3.9	—	44.5	−3.9	−8.1
Totals	3,361.0	−163.9	126.0	3,323.1	−37.9	−1.1%

ANALYSIS AND RECOMMENDATIONS

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

- An increase of $152,000 to fund child abuse prevention programs established by Ch 1618/84 and Ch 1638/84.
- An increase of $2,312,000 due to the transfer of the Work Incentive (WIN) program from the Employment Development Department (EDD) to DSS, as authorized by Ch 522/84.

- An increase of $1,111,000 to fund various workload adjustments, including $475,000 to provide specified notices to AFDC applicants, as required by the courts, $410,000 to continue rate setting activities for foster care facilities, and $112,000 due to an increase in the number of state hearings requested by public assistance and social services recipients.
- A proposed reduction of $408,000 in various low-priority services and activities.

Office Automation

We recommend that, prior to budget hearings, the Department of Finance and DSS (1) revise their cost estimates for each phase of the office automation project to reflect the contract that will be awarded in March 1985, and (2) advise the fiscal committees of the specific criteria they will use to determine whether Phase I of the project will be funded. We further recommend that the Legislature delete the proposed budget control language which would give the department expenditure authority for the automation project in 1986–87.

Background. In 1983–84, the department completed a study of its office operations, procedures, and staffing. The study concluded that 65 percent of the department's staff time was spent in five functional areas that could be improved significantly with automation. These areas are (1) document creation, capture, and revision; (2) document filing, indexing, and retrieval; (3) information distribution; (4) numerical processing, computing, and data manipulation; and (5) administrative operations, such as scheduling, sending messages, and tracking projects.

Because the department believes that significant productivity increases could be attained through automation, it completed a feasibility study report (FSR) assessing various alternative approaches to automation. The FSR concluded that a comprehensive "integrated" office automation system would best meet the department's needs. According to the department, an integrated system will have the following characteristics:

- All work stations' hardware and software would be compatible, thus allowing all equipment users to exchange data with other users in the department without resorting to conversion programs and equipment, or special training.
- All work stations would be able to send and receive messages from any other work station.
- It would be able to manipulate or merge different types of data (such as text, graphics, and spreadsheets) from different sources, such as the Health and Welfare Data Center, as well as from other work stations.
- Standardized system-wide policies, procedures, and training which would maximize sharing of information and data between work stations.

The department's FSR indicates that it will cost $4,480,664 over a three-year period to implement a department-wide integrated office automation system. The system will be implemented in three separate phases starting with a pilot phase in 1984–85. The pilot phase of the project was funded in 1984–85 from department savings in operating expenses and equipment that were realized in 1983–84. The department estimates that the office automation system will result in annual benefits of $3,701,753

DEPARTMENTAL SUPPORT—Continued

once it is fully implemented. The majority of the benefits ($3,641,166) are in the form of expected productivity increases. Based on the department's estimates, the costs of implementing the office automation system will be offset by the expected benefits by 1988–89, two years after the project is completed. Table 4 shows the estimated costs for each phase of the automation project.

Table 4
Office Automation
Summary of Estimated Costs [a]

	Pilot (1984–85)	*Phase I (1985–86)*	*Phase II (1986–87)*	*Total Costs*
One-time equipment and development costs	$1,464,118	$1,195,222	$1,297,360	$3,956,700
Continuing operating costs	235,264	219,456 [b]	469,244	923,964
Total Costs	$1,699,382	$1,414,678 [b]	$1,766,604	$4,880,664

[a] Source: Feasibility Study Report for Integrated Office Automation System.
[b] Does not equal the amount proposed in the 1985–86 budget ($1,430,000) because the budget proposal overbudgeted operating costs by $15,322.

Budget Proposal. The budget proposes expenditures of $1,430,000 to fund Phase I of the office automation project in 1985–86. This amount includes $1,195,000 for equipment and development costs and $235,000 for operating costs. The budget proposes to eliminate 20 positions in order to provide $438,000 of the funds needed for Phase I. The Budget Bill also includes control language that requires the department to submit an evaluation of the pilot phase of the project and obtain Department of Finance approval before spending $992,000 budgeted for the project in 1985–86.

Analyst's Concerns. We have several concerns regarding the budget proposal for Phase I of the department's automation project. First, at the time this analysis was prepared, the specific costs of the automation project were not known because the department had not yet awarded a contract for the system. Contract bidders are required to submit final bids by February 19, 1985, and the department expects to award a contract in March 1985. Although the budget includes $1.4 million for Phase I in 1985–86, the department will not know how much it will need for the system until a contract is awarded.

Second, the Budget Bill language does not specify the criteria that the Department of Finance will use to evaluate the pilot project and approve or deny the expenditure of funds for Phase I of the project. Third, the language authorizes expenditure in 1986–87 of any unexpended funds budgeted for office automation in 1985–86.

In order to provide the Legislature with a more complete proposal to review, we recommend that, prior to the budget hearings, the DSS and the Department of Finance (1) submit revised cost estimates for all three phases of the project, based on the terms of the contract awarded to the successful bidder and (2) advise the fiscal committees of the specific criteria that will be used to determine whether funding will be approved for Phase I of the automation project. We further recommend that Provision 4 of Item 5180-001-001—which proposes to give the department expenditure authorization for the automation project in 1986–87—be deleted because it is unnecessary and would preclude legislative review of any unexpended balance of the 1985–86 funds budgeted for office automation. If additional funding for Phase I is needed beyond the budget year, the unexpended balances remaining from 1985–86 can be reappropriated by the Legislature in the 1986 Budget Act.

Title XX Audits

We recommend that the Legislature reauthorize eight auditor positions and reduce General Fund expenditures by $131,000 because retaining the existing audit staff, is less costly than contracting with the State Controller for additional Title XX audits. (Reduce Item 5180-001-001 by $131,000.)

The Omnibus Reconciliation Act of 1981 (PL 97-35) established the Title XX Block Grant program, effective October 1, 1981. This law also required the DSS to develop an audit plan and audit the expenditures of the Title XX block grant funds on an annual basis. To comply with these requirements, the department has, in past years, contracted with the State Controller's office (SCO) to audit the administrative procedures of county welfare departments. The department, however, has not been auditing county Title XX expenditures for the IHSS program. County expenditures for IHSS include expenditures for individual provider wages and benefits paid through the IHSS payrolling system and expenditures for contracts with private agencies (third-party contracts) to provide IHSS services.

The budget proposes to increase the SCO contract to (1) provide for audits of the IHSS payrolling system and county third-party contract expenditures at a cost of $451,000 and (2) fund the expected 1985–86 costs of existing county welfare department audits, at a cost of $158,000. The budget also proposes to eliminate eight DSS audit staff at a savings of $320,000 to partially offset the costs of expanding the SCO contract. Thus the proposal results in a net cost of $289,000. Table 5 shows the changes proposed in the contract with the SCO.

Table 5

Proposed Changes to Contract with State Controller's Office

	Changes in DSS Costs	*Cost of SCO Contract*
1984–85 cost of SCO contract (county welfare department audits)	—	$1,041,436
1. Changes to SCO contract:		
a. Increase in costs of existing contract	$157,603	
b. Two additional positions for IHSS payroll system audits	127,353	
c. Five additional positions for county third-party contract audits	324,116	
Subtotals	$609,072	$609,072
2. Proposed elimination of eight DSS audit staff	–$320,000	
Net increase in costs to DSS	$289,072	
Proposed 1985–86 SCO contract		$1,650,508

We have identified the following problems with the department's proposal. First, because the department has never audited the IHSS payroll system or county third-party contracts, there is a backlog of 273 third-party contract audits for the period 1981–82 through 1984–85 and an unknown backlog of IHSS payroll system audits. The department proposes to audit only 14 of the 1983–84 third-party contracts in 1985–86 and ignore the remaining backlog of 259 contracts. The department contends that auditing the 14 contracts *substantially* complies with federal audit require-

DEPARTMENTAL SUPPORT—Continued

ments. However, we are unable to confirm this because the required audit plan has not been approved by the federal audit approval agency.

Second, contracting with the SCO for *seven* audit positions would cost the state $131,000 more than retaining in DSS *eight* audit positions to audit IHSS payroll systems and county third-party contracts. In addition, we find that the SCO contract is underfunded by the amount of any salary and benefit increases that may be approved for 1985–86.

Based on our review, we recommend that the Legislature reject the department's proposal to contract with the SCO for IHSS payroll and third-party contract audits and instead require the DSS to retain its existing eight audit positions. By doing so, the department would be clearly accountable both for auditing the backlog of IHSS payroll and for third-party contract audits, to whatever extent may be necessary. In our judgment, it is not at all clear that the department's audit plan for the SCO meets federal audit requirements and it appears that the SCO contract is not adequately funded. In addition, retaining the eight positions would result in a savings of $131,000 to the General Fund. For these reasons, we recommend that the Legislature (1) reauthorize eight department audit positions and delete $131,000 from Item 5180-001-001 to reflect the associated savings.

Statewide Automated Welfare System

We withhold recommendation on $512,000 ($256,000 from the General Fund and $256,000 in federal funds) requested for 12 new positions to support the Statewide Automated Welfare System (SAWS) project, pending review of the annual SAWS status report that is due March 1, 1985.

We discuss the SAWS project in detail as part of our analysis of the budget for the Department of Health Services (please see Item 4260-001-001). We withhold recommendation on the funds proposed for the SAWS project, pending review of the annual SAWS status report that state law requires the DSS to submit to the Legislature by March 1 of each year.

Transfer of Responsibility for Adoption Services from the State to the Counties

We recommend an augmentation of $2,530,000 to restore funding for state staff needed to provide adoption services in the counties currently serviced by the state's district offices. (Increase Item 5180-001-001 by $2,-530,000.)

The budget proposes to transfer responsibility for providing adoption services from the state district adoptions offices to the counties. We discuss this proposal in detail as part of our analysis of the adoptions local assistance budget (please see Item 5180-151-001), where we recommend that the Legislature reject the proposal and restore the funding for state staff needed to provide adoption services. Accordingly, we recommend a General Fund augmentation of $2,530,000 in the department's support budget and a reduction of $2,553,000 in the proposed General Fund support for county adoptions programs (Item 5180-151-001 and 5180-181-001).

Community Care Licensing Workload Standard Study

We recommend a reduction of $200,000 requested from the General Fund for a contract to develop community care licensing workload standards because the department is capable of conducting such studies with existing staff. (Reduce Item 5180-001-001 by $200,000.)

The Community Care Licensing (CCL) Division within the DSS is responsible for licensing various community care facilities, including day care facilities for children. Chapter 1615, Statutes of 1984, expressed the Legislature's intent that the DSS establish within the department a separate organizational structure for licensing day care facilities for children. In addition, the bill appropriated $2 million from the General Fund to the department, without regard to fiscal years, to (1) implement a staff development and training program for licensing staff of day care facilities for children, (2) establish a child care ombudsman program, and (3) make annual site visits to all licensed day care centers.

The budget requests $772,000 from the General Fund to supplement $1.2 million expected to remain from the Chapter 1615 appropriation, in order to implement this legislation in 1985–86. Of the $772,000, $200,000 is proposed for a workload standard study on behalf of the CCL Division. According to the department, the purpose of this study is to "achieve appropriate separate organizational structure and staffing" pursuant to the requirements of Chapter 1615. The department advises that it will contract with a public or private entity to conduct the workload study.

We have the following concerns with the department's proposal to contract out the CCL workload study:

- ***The department has the capability to conduct the workload standard study itself.*** The Management Analysis Bureau is responsible for conducting various studies on behalf of the department, including workload standard studies. As part of the 1984–85 budget, the department proposed to reduce the bureau's staff from 12 to 5 positions. In defense of this proposal, the department assured us that any management studies which would be needed in the future could be conducted using existing program and budget staff. On this basis, the Legislature adopted the department's proposal to reduce the staff of the bureau. The proposed workload standard study for CCL would appear to be the very type of study that the department assured the Legislature could be conducted by existing departmental staff.
- ***The department has experience in conducting CCL workload standard studies.*** In 1980, the department conducted a thorough workload standard study for CCL. The department should be able to use the methodology and data from that study as the basis for *updating* the existing community care licensing workload standards. Moreover, because the department currently licenses children's day care facilities, it should be able to use existing workload guidelines to develop and evaluate any new standards.

For these reasons, we recommend deletion of $200,000 requested for a contract to study the CCL workload standard. The department should use existing program and budget staff to conduct the proposed workload study.

Community Care Licensing Facilities Information System

We withhold recommendation on $435,000 requested from the General Fund for the Community Care Licensing Facilities Information System, pending receipt of a revised feasibility study report providing specified information on the project.

Chapter 1524, Statutes of 1984 (AB 3474), requires the Director of DSS to establish an automated information system for licensed community care facilities. The purpose of the system is to collect specified information on

DEPARTMENTAL SUPPORT—Continued

licensees and former licensees of community care facilities. Specifically, the system would collect the following information on each current or former licensee: address, phone number, citations for violations of any laws related to care of clients in a community care facility, license revocations, and social security number.

The DSS proposes to develop a system to collect license-related information which would allow (1) data input at each of the district offices, and (2) on-line inquiry by the central office in Sacramento in order to generate reports. The budget proposes $435,000 from the General Fund for development of this system in 1985–86, including $260,000 for equipment procurement and $175,000 in overtime expenses.

We withhold recommendation on the department's proposal, pending receipt of a revised feasibility study report (FSR). The revised FSR should address the following:

- ***There is a discrepancy between the development and start-up costs identified in the FSR and the amount of General Fund support proposed in the budget for 1985–86.*** The FSR identifies costs of $968,391 for start-up and development of this project in 1985–86. The budget, however, proposes only $435,000 for start-up costs in 1985–86.
- ***Certain benefits are not quantified in the FSR which we believe should be.*** The department's FSR identifies annual ongoing costs of $853,944 for its preferred system. The FSR identifies "tangible" quantified benefits from this system of $249,251 annually. The FSR also identifies "intangible" benefits, which are not quantified. We believe that in several instances these intangible benefits can and should be quantified. For example, a reduction in processing time for license applications and renewals is identified as an intangible benefit, when clearly these benefits are quantifiable.
- ***The FSR does not explain how annual savings will be realized.*** The annual benefits of $249,251 are calculated based on the number of hours required to perform a certain function multiplied by an hourly wage. The budget, however, does not propose to eliminate any staff as a result of this new system.
- ***The FSR does not identify the type and use of management reports which will be produced by the system.*** The FSR notes that the information system will allow the CCL Central Operations Branch and the Deputy Director's office to produce "ad hoc" reports. The FSR, however, does not identify the general content of these reports, how they will be used and the benefits of such reports.

Until these deficiencies have been corrected, the Legislature will not be able to conduct a meaningful review of the funding requested for the department's preferred information system. Accordingly, we withhold recommendation on funding requested for the proposed CCL Facilities Information System, pending receipt of a revised FSR that addresses the concerns noted above.

Technical Recommendations

We recommend that the proposed departmental support appropriation be reduced by $260,000 (all funds) to eliminate overbudgeting, as follows:

- The department underestimated by $245,000 ($136,000 from the General Fund and $109,000 in federal funds) the savings that would result from the various position reductions proposed in the budget by assuming that these positions are budgeted at the minimum step of the salary range rather than at the mid-step. (Reduce Item 5180-001-001 by $136,000 and Item 5180-001-890 by $109,000.)

- The department's request for $235,000 in operating costs for the office automation project is overbudgeted by $15,000, based on the estimated costs in the department's feasibility study. (Reduce Item 5180-001-001 by $15,000.)

Legislatively Required Reports

The *Supplemental Report of the 1984 Budget Act* required the department to submit various reports to the Legislature. The status of the specific reports is as follows:

- *Refugee Data Collection System.* The *Supplemental Report of the 1984 Budget Act* required the DSS to submit to the Legislature by December 15, 1984, a plan for implementing an ongoing data collection system for time-eligible and time-expired refugees receiving AFDC, Refugee Cash Assistance, General Relief, and any federally mandated or state-optional Title XX services. At the time this analysis was prepared, the department had not submitted the report to the Legislature.
- *County Administration of Refugee Programs.* The *Supplemental Report of the 1984 Budget Act* required the DSS to submit to the Legislature by January 1, 1985, a report on the program, fiscal, and implementation issues of turning over administration of the Refugee program to the counties. The report has been submitted by the department and we are in the process of reviewing it.
- *IHSS Pilot Project.* The *Supplemental Report of the 1984 Budget Act* required the DSS to compare the cost-effectiveness and quality of care associated with both contract and individual provider modes of service delivery, based on the experience of a pilot program in Santa Cruz County. The report also required the DSS to submit a preliminary report to the Joint Legislative Budget Committee by December 1, 1984, an interim report by December 1, 1985, and a final report no later than 30 days after the conclusion of the project. At the time this analysis was prepared, the department had not submitted the preliminary report to the Legislature.
- *County Welfare Department Administration of the AFDC and Food Stamp Programs.* The *Supplemental Report of the 1984 Budget Act* required the department to submit to the Legislature by January 1, 1985, a report on the "feasibility of developing additional measures to assess the performance of county welfare departments in their administration of the AFDC and Food Stamp programs." The supplemental report specified that these additional measures should focus on the speed and accuracy of the counties in making eligibility determinations and in issuing benefits. The department has submitted the required report and we are in the process of reviewing it.

Department of Social Services

AID TO FAMILIES WITH DEPENDENT CHILDREN

Item 5180-101 from the General
Fund and Federal Trust Fund Budget p. HW 158

Requested 1985–86	$1,683,146,000 [a]
Estimated 1984–85	1,593,775,000
Actual 1983–84	1,489,525,000
Requested increase $89,371,000 (+5.6 percent)	
Total recommended reduction in Item 5180-101-001	36,853,000
Total recommended reduction in Item 5180-181-001	1,300,000

[a] Includes $87,333,000 requested in Item 5180-181-001 (d) for a 5.3 percent cost-of-living increase to the maximum AFDC-FG and AFDC-U grants, and a 4 percent increase to AFDC-FC provider rates.

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-101-001—Payments for children	General	$1,595,813,000
5180-101-890—Payments for children	Federal	(1,757,183,000)
5180-181-001 (d)—Cost-of-living adjustments	General	87,333,000
5180-181-890—Cost-of-living adjustments	Federal	(97,695,000)
Total		$1,683,146,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Aid to Families with Dependent Children Caseload. Reduce Item 5180-101-001 by $25.0 million and Item 5180-181-001 (d) by $1.3 million.*** Recommend reduction of $55.8 million ($26.3 million from the General Fund and $29.5 million in federal funds) to make the economic assumptions on which the estimate of AFDC-Family Group (AFDC-FG) caseload for 1985–86 is based consistent with the assumptions used by the Department of Finance in preparing the remainder of the Governor's Budget, and thereby avoid double-budgeting for contingencies. 935
2. ***Cost of the $50 Child Support Income Disregard. Reduce Item 5180-101-001 by $9,491,000.*** Recommend reduction of $19,503,000 ($9,491,000 from the General Fund and $10,012,000 in federal funds) to reflect more accurate estimate of costs associated with the $50 child support income disregard. 937
3. ***Child Support Collections. Reduce Item 5180-101-001 by $2,362,000 and Item 5180-101-890 by $2,241,000.*** Recommend reduction of $4,603,000 ($2,362,000 from the General Fund and $2,241,000 in federal funds) to reflect more realistic estimate of child support collections in 1985–86. 937
4. State/County Foster Care Sharing Ratio. Recommend the Department of Finance report to the fiscal committees regarding how it proposes to finance the General Fund's share of foster Care program costs, as required by current law. 938

GENERAL PROGRAM STATEMENT

The Aid to Families with Dependent Children (AFDC) program provides cash grants to those children and their parents or guardians whose income is not sufficient to provide for basic needs. Eligibility is limited to families with children who are needy due to the death, incapacity, continued absence, or unemployment of a parent or guardian. In addition, the Adoptions Assistance program provides assistance to children who would otherwise have difficulty finding adoptive homes.

During the current year, 575,820 families (1,619,260 persons) are expected to receive AFDC grants. Another 2,712 families will receive adoptions assistance grants.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $1,683,146,000 from the General Fund for AFDC cash grants in 1985–86. The total includes $1,595,813,000 in Item 5180-101-001 and an additional $87,333,000 requested in Item 5180-181-001(d) to provide a 5.3 percent cost-of-living increase in maximum AFDC-Family Group (AFDC-FG) and AFDC-Unemployed Parent (AFCD-U) grants and a 4 percent increase in rates paid to foster care providers. This is an increase of $89,371,000, or 5.6 percent, from estimated 1984–85 expenditures.

As shown in Table 1, total expenditures from all funds for AFDC cash grants are budgeted at $3,752 million in 1985–86. This is a $300 million, or 8.7 percent, increase from estimated expenditures in the current year.

Table 1 shows the costs of AFDC programs for 1983–84 through 1985–86. Under state and federal laws, the federal government, the state, and the counties contribute 50 percent, 44.6 percent and 5.4 percent, respectively, toward the cost of grants provided to *Non-Refugee* AFDC recipients who are eligible under the federal Family Group and Unemployed Parent programs. The actual federal percentage share of *total* AFDC costs incurred under the Family Group and Unemployed Parent programs exceeds 50 percent because the grant costs for refugee families are 100 percent federally funded during the first 36 months in which refugee families are in the United States.

For those AFDC recipients who are not eligible for grants under federal law, the state pays 89.2 percent of the grant costs and the county pays 10.8 percent. These sharing ratios apply to the cost of grants provided under the State-Only AFDC-U program as well as to the cost of grants provided to women during their first six months of pregnancy.

The AFDC-FG program accounts for $2,984 million (all funds), or 80 percent, of total estimated grant costs under the three major AFDC programs (excluding Child Support Collections). The Unemployed Parent program accounts for 15.7 percent of the total, and the Foster Care program accounts for 7.6 percent.

Proposed General Fund Budget Changes

Table 2 shows the factors resulting in the *net* increase of $89,371,000 in General Fund support for the AFDC program in 1985–86. As the table shows, the largest cost increases projected for 1985–86 are due to (1) the

Table 1
Expenditure for AFDC Grants, by Category of Recipient
1983–84 through 1985–86
(dollars in thousands)

	Actual 1983–84					*Estimated 1984–85*					*Proposed 1985–86*			
Recipient Category	*Total*	*Federal*	*State*	*County*	*ICIF*[a]	*Total*	*Federal*	*State*	*County*	*ICIF*[a]	*Total*	*Federal*	*State*	*County*
Family Groups	$2,558,215	$1,283,559	$1,136,915	$137,741	—	$2,715,284	$1,367,525	$1,202,201	$145,558	—	$2,983,614	$1,502,324	$1,321,307	$159,983
Unemployed Parent	604,003	340,472	235,073	28,458	—	584,272	320,348	235,424	28,500	—	589,506	321,688	238,896	28,922
Foster Care	233,336	56,551	167,905	8,880	—	266,452	62,687	193,578	10,187	—	284,742	65,997	155,176	63,569
Adoption Programs	5,531	334	5,197	—	—	7,941	1,137	6,804	—	—	10,326	2,101	8,225	—
Child Support Incentive Payments to Counties	434	18,004	10,802	−28,972	$600	392	18,576	11,788	−30,572	$600	392	19,257	13,087	−31,952
Child Support Collections	−144,029	−69,897	−66,367	−7,765	—	−121,680	−59,099	−56,020	−6,561	—	−116,306	−56,489	−53,545	−6,272
Subtotals	$3,257,490	$1,629,023	$1,489,525	$138,342	$600	$3,452,661	$1,711,174	$1,593,775	$147,112	$600	$3,752,274	$1,854,878	$1,683,146	$214,250
Court-ordered Retroactive Payments	(11,826)	(6,100)	(5,108)	(618)	—	(14,099)	(7,179)	(6,175)	(745)	—	(81,693)	(41,438)	(35,907)	(4,348)
AFDC Cash Grants to Refugees	(282,961)	(204,764)	(69,752)	(8,445)	—	(318,948)	(206,427)	(100,368)	(12,153)	—	(346,792)	(216,862)	(115,898)	(14,032)
Totals	$3,257,490	$1,629,023	$1,489,525	$138,342	$600	$3,452,661	$1,711,174	$1,593,775	$147,112	$600	$3,752,274	$1,854,878	$1,683,146	$214,250

NOTE: Detail may not add to total due to rounding.
[a] Interstate Correction Incentive Fund.
[b] Includes funds for a 5.3 percent cost of living adjustment (COLA).

increased costs of judgments against the state ($44,419,000), (2) the increased costs of state and federal legislation ($13,084,000), and (3) the cost of the proposed COLA for 1985–86 ($87,333,000). These increased costs are partially offset by various anticipated cost reductions. The largest cost reductions are due to (1) the proposed change in the state/county foster care cost-sharing ratio (−$50,608,000), (2) grant savings due to fraud detection and prevention (−$7,749,000), and (3) increased child support collections that will result from the minimum child support award established by Ch 1605/84 (−$2,822,000).

Table 2

Proposed General Fund Changes for AFDC Grants
(dollars in thousands)

	Cost	*Total*
1984–85 Expenditures (Revised)		$1,593,775
A. Adjustments		$5,268
1. Basic Caseload		
2. Court Cases		
a. Prospective Costs	−$224	
b. Retroactive Grant Costs	29,732	
c. Interest Costs on Retroactive Cases	14,911	
Subtotal		$44,419
3. State and Federal Legislation		
a. Ch 569/84 AFDC Special Needs	135	
b. Ch 1151/83 Bonus Child Support Incentive	874	
c. Ch 323/82 State Only AFDC-U two-month limit	65	
d. HR 4170 DEFRA		
(i) Gross Income Limits	2,898	
(ii) Earned Income Disregards	−1,528	
(iii) Child Support $50 Pass-on	543	
(iv) $50 Child Support Disregard	5,085	
e. End to Extended Unemployment Benefits	5,354	
f. Reduced Grant Costs due to 84–85 OASDI Increase	−342	
Subtotal		$13,084
4. Fraud Detection and Prevention		
a. Early Detection and Prevention Program	−$5,110	
b. FTB Asset Clearance Match Program	−2,639	
Subtotal		−$7,749
5. Adjustments in Child Support Collections and Incentives		$637
6. Beginning Date of Aid Regulations		−$6
7. Other Adjustments		$601
Total, Adjustments		($56,254)
B. Proposed Changes		
1. 1985–86 Cost of Living Adjustment		
a. AFDC-FG&U (5.3%)	$81,345	
b. AFDC-Foster Care (4.0%)	5,988	
Subtotal		$87,333
2. Ch 1605/84 Minimum Child Support Award		−$2,822
3. Reduced Grant Costs Due to 85–86 OASDI Increase (5.1%)		−$273
4. Foster Care Audit Recoveries		−$513
5. Reduce State Share of nonfederal Foster Care Costs from 95% to 50% (Effective 1/1/86)		−$50,608
Total, Proposed Changes		($33,117)
D. 1985–86 Expenditures (Proposed)		$1,683,146
Change from 1984-85:		
Amount		$89,371
Percent		5.6%

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Eligibility, Caseloads, and Grants

Table 3 lists the eligibility criteria for the AFDC and Food Stamp programs (most AFDC recipients receive food stamps).

Caseload Decrease. Table 4 shows that in 1985–86, the AFDC caseload is expected to decrease by 9,516 persons from the revised estimate of caseload in 1984–85. As the table shows, this reduction reflects (1) a reduction of 25,050 persons, or 7.4 percent, in the AFDC-U caseload and (2) an increase of 14,170 persons, or 1.1 percent, in the AFDC-FG caseload.

Table 3

Basic Eligibility Requirements For the AFDC and Food Stamp Programs

A. Categorical Requirements		
1. AFDC—Family Group	Child with one parent absent, deceased, or physically or mentally incapacitated.	
2. AFDC—Unemployed Parent	"Principal Wage Earner" unemployed. Federal eligibility available if principal wage earner is unemployed for 30 days and has recent work experience. Otherwise, family is eligible for 3 months of Emergency Assistance and State-Only AFDC.	
3. AFDC—Foster Care	Child placed in foster care. A child removed by the court from an AFDC eligible home is eligible for federal support; the state supports court-placed children not linked to AFDC, and, for 6 months, voluntarily placed children.	
4. Food Stamps	Any family or individual qualifies who meets federally determined income and resource requirements.	
B. Income and Resource Requirements	*AFDC*	*Food Stamps*
1. Real and Personal Property	$1,000 limit; home exempt	$1,500 limit ($3,000 for household with one member aged 60 years or over)
2. Household Goods Personal Effects	Exempt	Exempt
3. Motor Vehicle	First $1,500 of net market value exempt	Limit of $4,500 on fair market value
4. Gross Income Limit	185 percent of AFDC minimum basic standard of need (see Table 5)	Limit $540 for an individual; each additional household member increases limit by $189 (family of 3 limit of $917)
5. Allowable Income Deductions	1. Standard work expenses ($75 full time; $50 part time)	1. 18 percent of earned income
	2. Child care expenses (up to $160 per child)	2. Standard deduction ($95)
	3. If the family has received AFDC within past 4 months, $30 and one-third of remaining income; not applied to families not previously on AFDC[a]	3. $134 limit on the sum of excess shelter costs and dependent care expenses
		4. Excess medical expenses (actual amount less $35) for households with member over 60 or receiving Title II disability payments
6. Net Income Limit	AFDC maximum aid payment (see Table 5)	Limit of $415 for individual; each additional household member adds about $145 (family of 3 limit is $705)

[a] Once a family qualifies for aid, during the first four months, it is entitled to the $30 and one-third earned income exemption in calculating the AFDC grant. For the remainder of its first year, the family is entitled to a $30 earned income exemption.

Maximum Payment Levels

Table 5 shows the maximum AFDC grant levels in 1984–85 for selected family sizes. It also shows the maximum grant levels for 1985–86, based on the 5.3 percent COLA proposed by the budget.

Table 4

Aid to Families with Dependent Children
Average Number of Persons Receiving Assistance Per Month
1984–85 and 1985–86

Program	1984–85 Estimated	1985–86 Proposed	Change Number	Change Percent
AFDC-Family Group	1,248,270	1,262,440	14,170	1.1%
AFDC-Unemployed Parent	339,730	314,680	−25,050	−7.4
AFDC-Foster Care	31,260	32,240	980	3.1
Adoptions Assistance program	2,712	3,096	384	14.2
Refugees: [a]				
Time-eligible	(51,082)	(47,137)	(−3,945)	−7.7
Time-expired	(122,375)	(140,825)	(18,450)	15.1
Totals	1,621,972	1,612,456	−9,516	−0.6%

[a] Grants to refugees who have been in the United States less than 36 months (time-eligible) are funded entirely by the federal government. Time-expired refugees, those who have been in the United States longer than 36 months, may qualify for and receive AFDC grants supported according to the normal sharing ratio.

Table 5

Maximum AFDC Grant Levels
1984–85 and 1985–86

Family Size	1984–85	DSS Estimate [a] Amount	DSS Estimate [a] Change
1	$272	$286	$14
2	448	472	24
3	555	584	29
4	660	695	35
5	753	793	40

[a] Based on an estimated 5.3 percent increase in the California Necessities Index (CNI) during 1984.

ANALYSIS AND RECOMMENDATIONS

AFDC-Family Grouped Caseload Estimates are Not Consistent With The Department of Finance's Economic Assumptions

We recommend a reduction of $53.0 million ($25.0 million from Item 5180-001-001 and $28.0 million from Item 5180-001-890) to make the economic assumptions on which the AFDC caseload estimates are based consistent with the assumptions used by the Department of Finance in preparing the budget, and thereby avoid double-budgeting for contingencies.

The budget proposes total spending of $3.0 billion (including the costs of the proposed 5.3 percent COLA) in 1985–86 for cash grants to AFDC-

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Family Group (AFDC-FG) recipients. This proposal assumes an average monthly AFDC-FG caseload of 473,380 cases, which represents 1,262,440 persons on aid. This is an increase of 9,660 cases, or 2.1 percent over the average monthly caseload in 1983–84, the last fiscal year for which data are available.

The department's caseload estimate is based, in part, on a projection of unemployment in the state for 1984–85 and 1985–86 that is quite different from the projection of unemployment used by the Department of Finance (DOF) in estimating state revenues and expenditures for other programs. Specifically, the economic forecast in the Governor's Budget assumes that the state's economic climate will continue to improve through the end of the 1985–86 fiscal year, thereby bringing about a decline in California's unemployment rate. Specifically, the DOF projects that the civilian unemployment rate will drop steadily throughout the current and budget years, from a high of 8.0 percent during the first quarter of 1984–85 to a low of 6.5 percent during the last quarter of 1985–86.

The unemployment rates used by DSS in preparing the caseload estimates for the AFDC program differ from those projected by DOF, in two respects. First, the unemployment rates used by DSS are substantially *higher throughout* the forecast period—by an average of one-half of a percentage point—than those used by DOF. Second, the trend of the DSS and DOF unemployment rates diverge, beginning in July 1985. The DOF projects that the rate will continue to decline, while the DSS expects the rate to increase beyond that point, finishing calendar year 1985 nine-tenths of a percentage point *above* what the DOF forecast.

It is possible, of course, that either one of these forecasts could prove to be accurate. Nevertheless, we believe that the Legislature should amend the Budget Bill to reflect the DOF's economic projections. In doing so, the Legislature would be reflecting what the administration considers to be the level of unemployment that is *most likely* to occur in 1985 and 1986, and relying on the Reserve for Economic Uncertainties (Control Section 12.3) to protect the budget in the event the economy does not perform as well as expected.

To, instead, use a set of assumptions for estimating AFDC caseload that represent a *pessimistic* (rather than most likely) view of the future, results in *double-budgeting* and unnecessarily ties up General Fund resources that the Legislature may wish to use for other important priorities. This double-budgeting would occur because the funds needed to pay for the increased AFDC-FG caseloads that could result if the DOF's economic forecast proves to be wrong would be budgeted in two different places—once in this item and once in the reserve for economic uncertainties. This $1.04 billion reserve is intended to cover unanticipated expenditures, *such as* unexpected AFDC caseload increases that arise because the DOF's economic forecast is inaccurate. In other words, the budget explicitly recognizes the potential for economic forecasting errors and has already set aside monies in a reserve to fund the AFDC-FG caseload increases that would occur if unemployment rates did rise, instead of fall.

Consequently, in order to make the budget internally consistent and to correct for double-budgeting, we recommend that the Legislature reduce the amount budgeted for AFDC grants. While we are not able to estimate what caseload *would* be consistent with the DOF's economic assumptions (the DSS advises us that it would need several months to revise the estimate), we believe a reasonable course of action at this time would be to assume that the monthly caseload in 1985–86 remains constant at the current-year level (463,720 cases). Accordingly, we recommend a reduction of $53.0 million ($25.0 million from the General Fund and $28.0 million in federal funds) in the amount proposed for the AFDC program. Approval of this recommendation would allow a $2.8 million reduction ($1.3 million from the General Fund and $1.5 million in federal funds) in the amount budgeted for the 5.3 percent AFDC COLA in Items 5180-181-001 and 5180-181-890.

Adoption of this recommendation would *not* involve any change in the AFDC program itself, nor would it affect the entitlement of individual AFDC recipients to grants. Should the DSS' economic assumptions prove to be accurate, the budget provides a mechanism for funding grants to the additional caseload without further action by the Legislature.

Child Support Caseload Overestimated

We recommend a reduction of $19,503,000 ($9,491,000 from Item 5180-101-001 and $10,012,000 from Item 5180-101-890) to reflect a more accurate estimate of the costs resulting from the $50 child support income disregard.

Public Law 98-369, effective October 1, 1984, requires that the first $50 of monthly child support paid to an AFDC family be disregarded as income for the purposes of calculating the family's AFDC grant. Thus, beginning October 1, 1984, parents on AFDC who are paid child support will receive up to $50 more in their monthly support payments. (Some parents receive an increase of less than $50 because their child support payments are less than $50.) Prior to this change, child support payments reduced AFDC grant costs on a dollar-for-dollar basis.

The effect of this policy change is to *increase* expenditures under the AFDC program. The budget includes $44,174,000 ($20,338,000 General Fund, $21,455,000 federal funds, and $2,381,000 county funds) to finance the increased expenditures associated with the higher grant levels.

The DSS estimated the cost of the child support income disregard using caseload data taken from the Child Support Management Information System (CSMIS). At the time it prepared the estimate the department recognized that the CSMIS tends to over-report the number of parents receiving child support. This is because the system does not distinguish between payments for current child support obligations and those for past-due support obligations. Since the $50 disregard rule applies only to payments for current obligations, it is inappropriate to use the caseload data reported by the CSMIS in estimating the costs of the disregard.

Based on information provided by the department, we estimate that only 53 percent of the child support payments reported by the CSMIS are for *current* support obligations. We therefore recommend a reduction in the amount budgeted for AFDC grants totaling $19,503,000 ($9,491,000 General Fund and $10,012,000 federal funds)—an amount equal to 47 percent of the amount estimated by the department.

Inconsistencies in the Department's Estimate of Basic Child Support Collections

We recommend a reduction of $4,603,000 to reflect a more realistic estimate of child support collections in 1985–86. (Reduce Item 5180-101-001 by $2,362,000 and Item 5180-101-890 by $2,241,000.)

The budget anticipates that the counties will collect on behalf of AFDC recipients a total of $116,306,000 in child support payments in 1985–86. Of this amount, the budget estimates that the state's share of collections will

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

total $40,458,000. The state will use its share of the collections (1) to offset the General Fund costs of the AFDC program and (2) to make incentive payments to county district attorneys. The purpose of these incentives is to encourage district attorneys to improve their collections efforts.

Our review of the estimate for total child support collections in 1985–86 indicates that the department may have significantly understated the revenue that will be generated by this program. Specifically, the department's estimate anticipates that "basic collections" (that is, collections resulting from traditional enforcement methods, rather than from the tax refund and unemployment benefit intercept systems) will increase by an average of 1.5 percent per year between 1982–83 and 1985–86. In contrast, the collections for the first three quarters of 1983–84, the most recent period for which data currently are available, were *13 percent* higher than collections during the first three quarters of 1982–83.

The department advises that it did not take into account the data from the first three quarters of 1983–84 in preparing its estimate of child support collections. This is because the 13 percent increase is primarily due to improvements in Los Angeles County's Child Support Enforcement program. The DSS expects that these improvements will result in a permanent increase in basic collections. The department does not, however, anticipate that Los Angeles County will be able to achieve *additional* improvements of this magnitude in 1984–85 and 1985–86.

We agree that it would be unrealistic to anticipate increases for 1984–85 and 1985–86 on the order of those achieved in the first three quarters of 1983–84. We think it is equally unrealistic, however, to forecast increases of 1.5 percent per year as the budget does. We believe that a more reasonable estimate would be that collections in 1984–85 and 1985–86 will increase at an annual rate of 4 percent. This assumption allows for moderate growth in basic collections, at a rate slower than the 5.1 percent average growth experienced since 1978–79.

Based on the assumption of a 4 percent growth in basic collections in 1984–85 and 1985–86, we estimate that the counties will collect $6,130,000 ($2,822,000 from the General Fund, $2,977,000 in federal funds, and $331,000 in county funds) more in 1985–86 than is anticipated in the budget. Since a portion of these additional collections will be used to pay additional incentives to the counties, not all of the increase will be available to offset AFDC grant costs. After accounting for the portion of the increased collections that will be used to pay for incentives, $2,362,000 will be available to offset General Fund AFDC grant costs and $2,241,000 will be available to offset federal funds grant costs. We therefore recommend a reduction of $2,362,000 in General Fund support for the AFDC program and $2,241,000 in federal funds support to reflect the increased basic child support collections that we estimate will occur in 1985–86.

Foster Care Underfunded

We recommend that the Department of Finance report to the fiscal committees during budget hearings on how it proposes to finance the General Fund share of Foster Care costs that is required by current law.

The budget proposes total spending of $284,742,000, including the cost of the proposed 4 percent COLA, for the AFDC-Foster Care (AFDC-FC) program in 1985–86. This amount includes $155,176,000 proposed from the General Fund, $65,997,000 in federal funds, and $63,569,000 in county funds. The state and county shares of total spending reflected in the budget *assume* the following:

- Between July 1, 1985, and December 31, 1985, the budget assumes that the state will pay 95 percent and the counties will pay 5 percent of the nonfederal foster care costs.
- Between January 1, 1986, and June 30, 1986, the budget assumes that the state and the counties will each pay for 50 percent of the nonfederal foster care costs.

The assumption that the state will pay 50 percent, as opposed to 95 percent, of the nonfederal share of foster care costs beginning on January 1, 1986, is contrary to current law. Current law requires the state to pay 95 percent of these costs until December 31, 1986. The budget document, however, asserts that the requirement for a 95 percent state share of nonfederal costs will expire on December 31, 1985—one year earlier than what current law specifies. Apparently, the Department of Finance based its assumption on a typographic error in Chapter 1379/84. The Legislative Counsel advises that, despite the typographical error, "the state is obligated to pay 95 percent of [the nonfederal foster care costs]. . . until January 1, 1987."

Based on the Department of Finance's interpretation of current law, the budget proposes General Fund spending for the AFDC-FC program amounting to $155,176,000 (including $5,988,000 for the proposed 4 percent COLA). This amount is $52,632,000 *less* than what current law actually requires. We, therefore, recommend that the Department of Finance report to the fiscal committees during budget hearings on how it proposes to finance the General Fund share of Foster Care costs in accordance with current law.

Report on Foster Care Sharing Ratio Pending

The *Supplemental Report of the 1984 Budget Act* required the DSS to report to the Legislature by December 1, 1984, on "whether the 5 percent county share of nonfederal foster care costs provides the counties with adequate incentives to (1) provide appropriate social services through the county social services programs and (2) insure children are placed in lower-cost foster care placements when appropriate." At the time this analysis was prepared, the report had not been submitted to the Legislature. We also will be addressing these issues, as well as other issues related to the foster care sharing ratio, in a report on the effect of Ch 978/82 (SB 14) which is currently in process of being prepared. We will issue our report on SB 14 in the spring of this year.

Foster Care Group Home Rate Control Report

The *Supplemental Report of the 1984 Budget Act* required the DSS to submit a report to the Legislature by December 31, 1984, on a foster care rate control system for use in 1985–86. At the time this analysis was prepared, the department had not yet submitted its final report to the Legislature. (The department provided our office with a draft of the report on January 11, 1985.) We will issue our analysis of the department's proposed rate control system in the spring of this year.

Department of Social Services

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED

Item 5180-111 from the General Fund and Federal Trust Fund — Budget p. HW 161

Requested 1985–86	$1,397,366,000 [a]
Estimated 1984–85	1,262,141,000
Actual 1983–84	1,137,481,000
Requested increase $135,225,000 (+10.7 percent)	
Total recommended reduction	$6,958,000
Recommendation pending	1,247,084,000

[a] This amount includes $103,224,000 proposed in Item 5180-181-001(a) for cost-of-living increases.

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-111-001—Payments to aged, blind, and disabled	General	$1,294,142,000
5180-111-890—Payments to aged, blind, and disabled, refugees	Federal	(5,198,000)
5180-181-001(a)—Payments to aged, blind, and disabled—COLA	General	103,224,000
5180-181-890—Payments to aged, blind, and disabled—COLA, refugees	Federal	(339,000)
Total		$1,397,366,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Caseload Projections. Withhold recommendation on $1,247,084,000 requested to fund projected caseload, pending review of the May revision estimates of caseloads. 943
2. ***Federal Reimbursements. Reduce Item 5180-111-001 by $6,958,000, (General Fund).*** Recommend reduction to reflect anticipated receipt of federal reimbursement for payment errors. 946

GENERAL PROGRAM STATEMENT

The Supplemental Security Income/State Supplementary program (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. A person may be eligible for the SSI/SSP program if he/she is elderly, blind, or disabled and meets the income and resource criteria established by the federal government.

The federal government pays the cost of the SSI grant. California has chosen to supplement the federal payment by providing an SSP grant. The SSP grant is funded entirely from the state's General Fund. In California, the SSI/SSP program is administered by the federal government through local Social Security Administration (SSA) offices.

During the current year, an estimated 665,404 persons will receive assistance each month under this program.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $1,397,366,000 from the General Fund for the state's share of the SSI/SSP program in 1985–86. This is an increase of $135,225,000, or 11 percent, above estimated expenditures in the current year. The budget also assumes that federal expenditures for the SSI/SSP program will be $1,235,094,000. This is an increase of $69,868,000, or 6 percent, above estimated federal expenditures in the current year. The budget estimates that combined state and federal expenditures for the SSI/SSP program will be $2,632,460,000, which is an increase of $205,093,000, or 8.5 percent above estimated current-year expenditures.

Table 1 shows SSI/SSP expenditures, by category of recipient and by funding source, for 1983–84 through 1985–86 (proposed).

Table 1
SSI/SSP
Expenditures 1983–84 through 1985–86
(dollars in thousands)

Category of Recipient	*1983–84 Actual* [b]	*1984–85 Estimated* [b]	*1985–86 Proposed* [a,b]	*Change from 1984–85 to 1985–86: Amount*	*Percent*
Aged	$708,035	$764,157	$822,381	$58,224	7.6%
Blind	73,487	80,894	87,394	6,500	8.0
Disabled	1,419,140	1,582,316	1,722,685	140,369	8.9
Totals	$2,200,662	$2,427,367	$2,632,460	$205,093	8.5%
Funding Source					
General Fund	*$1,137,481*	*$1,262,141*	*$1,397,366*	*$135,225*	*10.7*
Federal Funds	*1,063,181*	*1,165,226*	*1,235,094*	*69,868*	*6.0*

[a] Includes 5.3 percent COLA.
[b] Includes federal funds to support SSP costs for refugees.

Table 2
SSI/SSP
Proposed Budget Changes
1985–86
(dollars in thousands)

	General Fund	*Federal Funds* [a]	*Total* [a]
1984–85 expenditures (revised)	$1,262,141	$1,165,226	$2,427,367
Proposed changes:			
1. Basic caseload increases	27,661	20,109	47,770
2. Cost-of-living adjustments			
a. Proposed 5.3 percent grant increase (1/86)	103,224	339	103,563
b. Full-year cost of 1/85 grant increase	60,558	21,906	82,464
c. Estimated federal SSI increase (1/86)	−40,697	39,801	−896
d. Estimated social security benefit increase (1/86)	−18,180	−11,787	−29,967
Subtotals	($104,905)	($50,259)	($155,164)
3. Program adjustments			
a. Decreased federal reimbursement for errors	$1,084	−$1,084	—
b. Decreased disability reviews	1,150	1,366	$2,516
c. All others	425	−782	−357
Subtotals	($2,659)	(−$500)	($2,159)
1985–86 expenditures (proposed)	$1,397,366	$1,235,094	$2,632,460
Change from 1984–85:			
Amount	$135,225	$69,868	$205,093
Percent	10.7%	6.0%	8.5%

[a] Includes federal funds of $5,555,000 in 1984–85 and $5,198,000 in 1985–86 to support SSP costs for refugees.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

Table 2 shows the budget adjustments that account for the increase in SSI/SSP expenditures proposed for 1985–86. Significant changes proposed in General Fund costs include:

- A $103.2 million increase to provide a 5.3 percent COLA for grants, beginning January 1, 1986.
- A $60.6 million increase to fund the full-year cost in 1985–86 of the 5.6 percent COLA provided for SSI/SSP grants on January 1, 1985.
- A $40.7 million decrease due to increased federal funds available to provide a COLA for SSI/SSP grants.
- A $27.7 million increase to fund higher caseloads and average grants.
- An $18.2 million decrease to reflect estimated increases in receipients' unearned income (primarily due to a 4.5 percent COLA for social security benefits), which reduces grant costs.

ANALYSIS AND RECOMMENDATIONS

Eligibility Requirements

The Social Security Administration (SSA) administers the SSI program. In addition, the SSA will administer a state's SSP program if it is requested to do so by the state. When the SSA administers a state's SSP program, as it does in California, federal eligibility requirements are used to determine an applicant's eligibility for both the SSI and SSP programs.

Table 3
SSI/SSP
Basic Eligibility Requirements

A. Categorical Requirements	
Category	*Criteria*
1. Aged	a. 65 years of age or older.
2. Blind	a. Vision correctable to no better than 20/200 in the better eye.
	b. Diagnosed by physician or optometrist.
3. Disabled	a. Mental or physical impairment which precludes "substantial gainful employment."
B. Income and Resource Limits	
Type	*Limit*
1. Home	Entire value exempt.
2. Personal and real property [a]	$1,600 for individual, $2,400 for couple.
3. Household goods/personal effects	$2,000 equity value.
4. Motor vehicle	$4,500 market value.
5. Gross income limit	None.
6. General income exclusion	$20/month general exclusion.
7. Earned income exclusion	
a. All categories	a. First $65/month of earned income plus one-half of remaining earned income.
b. Blind and disabled	b. Any income used toward gaining self-sufficiency.
8. Net income limit	Maximum SSI/SSP grant (see Table 5).

[a] Real property exclusive of home is considered to be personal property. Reflects $100 increase for individuals and $150 for couples effective January 1, 1985.

To be eligible for the SSI/SSP program, individuals must fall into one of three categories—aged, blind, or disabled. In addition, their income and resources cannot exceed certain specified limits. Table 3 summarizes the eligibility requirements for the SSI/SSP program.

The Deficit Reduction Act of 1984 (DEFRA) increased the limit for personal and real property by $100 for individuals and $150 for couples for each year of a five-year period beginning January 1, 1985. This provision will therefore increase the resource limits to $2,000 and $3,000, respectively, by 1989. Aside from this provision, the eligibility requirements for the SSI/SSP program are essentially unchanged from the current year.

Status of Current-Year Budget

The department's latest estimate of General Fund costs for the SSI/SSP program in 1984–85 is $1,262,141,000. This is $65,545,000, or 5.5 percent, above the amount appropriated in the 1984 Budget Act. The major factors that account for the net increased costs are as follows:

- Increase of $35.2 million, due to increased caseload and average grant payments.
- Increase of $32.9 million, because the amount of federal funds provided for COLAs to SSI/SSP grant recipients and the increase in social security benefits in 1985 were less than anticipated. The budget assumed an increase of 6.1 percent for both the SSI grant and social security benefits, while the actual increase on January 1, 1985, was 3.5 percent.
- Decrease of $6.2 million, because the amount of federal funds provided to reimburse the state for errors made by the federal government in administering the SSI/SSP program was greater than expected.
- Increase of $3.4 million, due to a moratorium on disability reviews for the period April 1984 through March 1985.

Caseload Estimates

We withhold recommendation on $1,247,084,000 requested to fund the SSI/SSP caseload, pending receipt of the May revision and updated caseload estimates.

The department estimates that an average of 675,658 persons per month will receive assistance under the SSI/SSP program in 1985–86. As Table 4 shows, this is an increase of 10,254 persons, or 1.5 percent, over the estimated caseload in the current year. This increase reflects increases in all three recipient categories, with the largest increase occurring in the disabled category.

Table 4
SSI/SSP
Average Monthly Caseload
1983–84 through 1985–86

Eligibility Category	*1983–84 Actual*	*1984–85 Estimated*	*1985–86 Projected*	*Change Amount*	*Change Percent*
Aged	266,300	265,580	267,100	1,520	0.6%
Blind	18,263	18,795	19,000	205	1.1
Disabled	367,304	381,029	389,558	8,529	2.2
Totals	651,867	665,404	675,658	10,254	1.5%

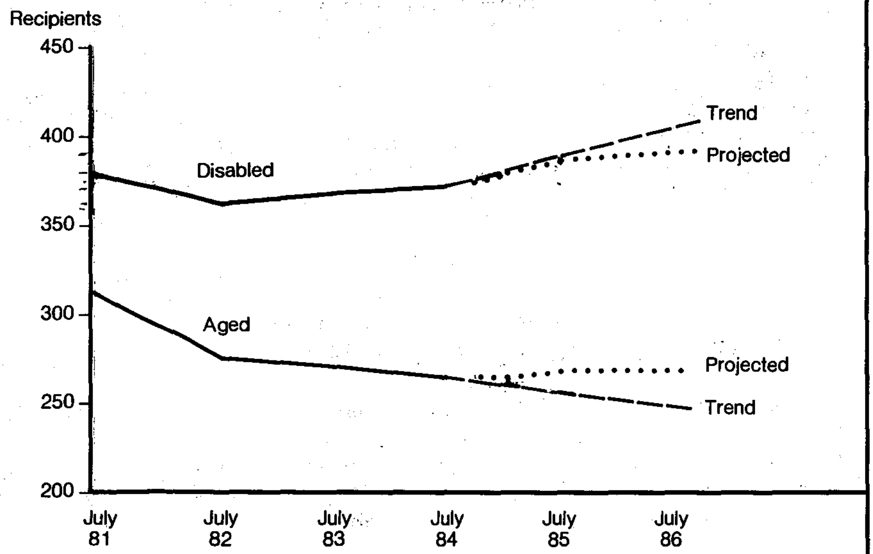
STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

We have two major concerns regarding the department's estimates:

- The department's estimate of the aged caseload is based primarily on data for only one quarter. As Chart 1 shows, the aged caseload has been declining steadily since January 1983. Based on caseload data for the first quarter of 1984–85, however, the department projects that this trend will be reversed and that the caseload will remain relatively constant through the end of 1985–86. We do not believe that one quarter's worth of data is an adequate basis on which to project a trend in caseload that departs significantly from past trends.
- The department's projection of the aged caseload from January 1985 through July 1986 does not reflect the increase in the aged population within California. The Department of Finance, for example, estimates that the aged population will increase by over 3 percent between 1984–85 and 1985–86.
- The department is projecting a lower disabled caseload than is consistent with recent trends. The rate of growth in the disabled caseload *may* slow—as the department estimates—when periodic reviews of disabled recipients' eligibility status are resumed later this year. We do not believe, however, that the effect of the reviews on the disabled caseload can be accurately assessed until federal regulations are promulgated that establish (1) the number of cases to be reviewed each month and (2) the specific criteria to be used for determining continued eligibility. The federal government will issue these regulations by March 1985.

Chart 1

SSI/SSP Caseload (Aged and Disabled)
Comparison of Trends to Projected Caseloads
July 1981 through July 1986 (In thousands)



Given these uncertainties, we withhold recommendation on $1,247,084,000 requested for the costs of the basic SSI/SSP caseload, pending receipt of revised caseload estimates as part of the May revision.

Grant Levels and Cost-of-Living Adjustments

The maximum grant amount received by an SSI/SSP recipient varies according to the recipient's eligibility category. For example, in 1985 an aged or disabled individual can receive up to $504 per month, while a blind individual can receive up to $565. In addition to categorical differences, grant levels vary according to the recipient's living situation. The majority of SSI/SSP recipients reside in independent living arrangements. Other recipients reside in (1) independent living arrangements without cooking facilities, (2) the household of another person, or (3) nonmedical board and care facilities. The grants provided to these individuals differ from the grants received by individuals in independent living arrangements.

Table 5 shows the maximum grant levels for the major recipient categories in 1984 and 1985, as well as the 1985 grant levels adjusted for the 5.3 percent increase proposed for 1986 by the Governor's Budget.

Table 5
SSI/SSP
Maximum Monthly Grant Levels
Calendar Years
1984 through 1986

Category of Recipient	*1984*	*1985*	*Governor's Budget[a, b] 1986*	*Change from 1985 to 1986 Amount*	*Change from 1985 to 1986 Percent*
Aged or disabled:					
Individual:					
Total grant	$477	$504	$531	$27	5.4%
SSI	314	325	340	15	4.6
SSP	163	179	191	12	6.7
Couple:					
Total grant	886	936	986	50	5.3
SSI	472	489	511	22	4.5
SSP	414	447	475	28	6.3
Blind:					
Individual:					
Total grant	535	565	595	30	5.3
SSI	314	325	340	15	4.6
SSP	221	240	255	15	6.3
Couple:					
Total grant	1,041	1,099	1,157	58	5.3
SSI	472	489	511	22	4.5
SSP	569	610	646	36	5.9

[a] Adjustments may not equal 5.3 percent due to statutory requirements that payments be rounded to the nearest dollar.
[b] Assumes a 4.5 percent increase in SSI grants, effective January 1, 1986.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

Federal Requirements. The Social Security Act Amendments of 1983 require California to maintain its SSP grants at or above the July 1983 level. This means that, for aged or disabled individuals—who represent the largest groups of recipients—the state must provide at least $157 per month in addition to the SSI grant provided by the federal government. As Table 5 shows, the SSP grant levels proposed in the budget exceed those required by federal law.

State Requirements. Existing state law requires that the total SSI/SSP payment levels be adjusted, effective January 1, 1986, based on the change in the CNI during calendar year 1984. The Commission on State Finance is required to calculate the CNI and will announce the actual change in the CNI for calendar year 1984 during March of this year. The commission's calculation, therefore, will be available for use in calculating the *actual* grant adjustments required by current law in the budget year, prior to when the Legislature completes action on the budget.

Budget Proposal. The budget proposes to provide the cost-of-living increase required by state law. Based on a Department of Finance estimate of the change in the CNI during 1984, the budget proposes a 5.3 percent increase in the maximum grants, at a cost of $103,224,000 to the General Fund. Table 5 shows the effect of a 5.3 percent increase to the grant levels for various recipient categories. The budget also proposes to limit the SSI/SSP grant increase if federal increases for SSI and recipients' unearned income (social security benefits) are less than anticipated in the Governor's Budget. For our analysis of this proposal, please see page 987 (cost-of-living adjustments).

Unbudgeted Federal Reimbursements for Errors

We recommend that the General Fund appropriation for the SSP grant be reduced by $6,958,000 to reflect the anticipated receipt of Federal Funds to compensate for past Federal payment errors. (Reduce Item 5180-111-001 by $6,958,000).

The federal government maintains a quality assurance program that periodically samples SSI/SSP caseload data in order to identify errors made by the SSA in granting eligibility or in making payments to eligible individuals. The state then reviews a portion of the federal sample to test the accuracy of the federal review. Based on the state and federal reviews, the federal government estimates the amount of state funds that it has paid out in error and thus, the amount of the Federal Fiscal Liability (FFL), or reimbursement, to which the state is entitled.

The SSA terminated the FFL program, effective October 1, 1984. The SSA will continue to sample SSI/SSP cases to monitor its performance in administering the program, but it will no longer reimburse states for errors made subsequent to October 1, 1984. The state can, however, expect to receive reimbursements for errors made in the five six-month payment periods prior to October 1984, to which it is entitled.

The 1984 Budget Act anticipated that the state would receive $15 million in FFL reimbursements during 1984–85 for the period April 1982 through March 1983. The 1985–86 budget anticipates that the state will receive an additional $13.9 million in FFL for the two payment periods covering April 1983 through March 1984. The budget, however, does not include reimbursements for the April 1984 through September 1984 payment period, which is the last payment period for which the state can receive FFL reimbursements. Based on the payment history, the department estimates that reimbursements for this last period will be $6,958,000.

Based on our review, we believe that the 1985–86 budget *should* include the reimbursements for the last FFL period (April 1984 to September 1984). Specifically, we have found that the lag time between the end of a payment period and the receipt of reimbursements, from the SSA for errors made in that period depends partly on when the SSA and the state complete their reviews and partly on the length of time it takes for the state and the SSA to finally agree on the amount. The SSA Field Office of Assessment indicated that it will have completed its review of the last FFL period for California by February 15, 1985. According to terms of the state/federal contract, the state must then complete its review within 90 days (by May 15, 1985). Consequently, the DSS should have over 13 months, prior to the end of the 1985–86 fiscal year in which to settle any differences between the DSS and the SSA estimates of error.

Based on our review of FFL payment history, we believe 13 months should be ample time to settle with the SSA. We therefore recommend a reduction of $6,958,000 in General Fund budgeted for the SSI/SSP program to reflect the receipt of FFL reimbursements for the April 1984 through September 1984 payment period.

Department of Social Services
SPECIAL ADULT PROGRAMS

Item 5180-121 from the General Fund and the Federal Trust Fund — Budget p. HW 162

Requested 1985–86	$1,620,000
Estimated 1984–85	1,540,000
Actual 1983–84	1,500,000
Requested increase $80,000 (+5.2 percent)	
Total recommended reduction	None

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-121-001—Special Adult Programs	General	$1,620,000
5180-121-890—Special Adult Programs	Federal	(70,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Special Circumstances Program. Recommend that, the Legislature adopt Budget Bill language to limit state reimbursement for county administrative costs to either the county's actual costs, or 75 percent of program costs, whichever is less. Further recommend a General Fund reduction of $730,000 in the county administration item (5180-141-001) to reflect savings due to this limit. 948

SPECIAL ADULT PROGRAMS—Continued

GENERAL PROGRAM STATEMENT

The Special Adult program consists of three distinct program elements designed to fund the emergency and special needs of Supplemental Security Income/State Supplementary Program (SSI/SSP) recipients. These elements are the (1) Special Circumstances program, which provides financial assistance for emergency needs, (2) Special Benefits program, which provides a monthly food allowance for guide dogs belonging to blind SSI/SSP recipients and (3) Temporary Assistance for Repatriated Americans program, which provides assistance to needy U.S. citizens returning from foreign countries.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes a General Fund appropriation of $1,620,000 for the Special Adults program in 1985–86. This is $80,000, or 5.2 percent, more than estimated General Fund expenditures for this program in the current year.

The budget also proposes $70,000 in federal funds to provide cash assistance to repatriated Americans. This amount is the same as the amount estimated for expenditure in the current year.

ANALYSIS AND RECOMMENDATIONS

Special Circumstances Allocation Plan Needs Improvement

We recommend that the Legislature limit state reimbursement of county costs to administer the Special Circumstances program to actual costs, or 75 percent of program costs, whichever is less. Accordingly, we recommend adoption of Budget Bill language specifying the 75 percent limit and a General Fund reduction of $730,000 in the county administration item (5180-141-001) to reflect the reduced amount of state reimbursement.

Background. The Special Circumstances program provides adult recipients with financial assistance in times of emergency. Payments up to specified maximum amounts can be made to replace furniture, equipment, or clothing that is damaged or destroyed by a catastrophe. Payments also are made for moving expenses, housing repairs, and emergency shelter. In addition, the Special Circumstances program reimburses foster parents for the cost of burying a foster child who was in their care at the time of death.

In addition to funds budgeted in this item, funds are budgeted in Item 5180-141-001 to support the counties' costs for administering this program.

In the past, the Special Circumstances program has been a relatively costly program to administer. In both 1982–83 and 1983–84, the state spent more to reimburse counties for administering this program than it spent on benefits to aged, blind, and disabled persons. With this in mind, the Legislature directed the department through language in the 1984 Budget Act to develop an allocation plan to control the administrative costs.

Department's Allocation Plan. In July 1984, the department notified the Joint Legislative Budget Committee that it had developed an allocation plan for the Special Circumstances program. Specifically, the department proposed to allocate administrative funds to the counties using two factors. One-half of the administrative funds would be allocated based on each county's share of the statewide caseload. The other half of the funds would be allocated based on each county's share of administrative expenditures statewide. The plan also limited the maximum amount that counties could be reimbursed for administrative costs to the statewide average program costs per case. In prior years, the department had reimbursed counties for what the counties claimed were their actual costs of administering the program.

The department's allocation plan partially addresses the problem of excessive administrative costs. It would reduce the administrative expenditures in some counties that, in the past, have had inordinately high administrative costs relative to program costs. The plan would accomplish this by not reimbursing county administrative costs that, on a per-case basis, exceed the statewide average program cost per case.

Nevertheless, the plan falls short of adequately addressing the problem of excess administrative costs. In fact, it does nothing to reduce the total amount expended by counties to administer this program. Even with the plan, counties collectively will still spend 5 percent more to administer the program than what they deliver in program benefits to SSI/SSP recipients. According to the department, the statewide ratio of county program expenditures to administrative expenditures is expected to be \$1: \$1.10 and \$1: \$1.05 in 1984–85 and 1985–86, respectively—down only slightly from \$1: \$1.08 in 1983–84.

In our judgment, the amount budgeted for administration, even with the new allocation plan, is still inordinately high, relative to the amount budgeted for benefits. Furthermore, the large variation in county expenditures suggests that benefits can be delivered for less money than what is now being spent. In 1983–84, 39 of the 52 counties participating in the program incurred administrative expenditures that did not exceed 75 percent of program expenditures. Thus, three-fourths of the counties *are* able to deliver \$4 in program benefits for every \$3 spent on administration. It is not clear why the other 13 counties should not be able to do so, as well. These 13 counties incurred administrative expenditures which ranged from just over 75 percent of program expenditures in Santa Barbara County *to 328 percent in Los Angeles County*.

In summary, we conclude the department has not adequately controlled the excessive costs of administering the Special Circumstances program, as required by the 1984 Budget Act. Moreover, the fact that 39 counties *are* able to administer the program much more efficiently than others would seem to indicate that a significant reduction in administrative expenditures statewide can be achieved.

On this basis, we recommend that the Legislature limit state reimbursement of county administrative costs to 75 percent of each county's program expenditures, or actual costs, whichever is less. Accordingly, we recommend the adoption of the following Budget Bill language and a reduction of \$730,000 from the General Fund (Item 5180-141-001) to reflect the savings associated with this reimbursement limit:

> "Of the funds appropriated in this item, no more than \$881,000 shall be expended by the department to reimburse counties for their costs of administering the Special Circumstances program. Furthermore, the department shall limit state reimbursement for individual county's administrative costs to 75 percent of the county's total benefit expenditures, or actual administrative costs, whichever is less."

Department of Social Services
REFUGEE CASH ASSISTANCE PROGRAMS

Item 5180-131 from the Federal
Trust Fund — Budget p. HW 164

Requested 1985–86	$46,168,000 [a]
Estimated 1984–85	48,264,000
Actual 1983–84	75,518,000
Requested decrease $2,096,000 (+4.3 percent)	
Total recommended reduction	None

[a] Includes $1,028,000 proposed in Item 5180-181-890 for a 5.3 percent cost-of-living increase.

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-131-866—Refugee programs—local assistance	Federal	$45,140,000
5180-181-866(c)—Refugee programs—local assistance, COLA	Federal	1,028,000
Total		$46,168,000

GENERAL PROGRAM STATEMENT

This item appropriates the federal funds that pay for the costs of cash grants and medical assistance provided to refugees and Cuban/Haitian entrants who are eligible for assistance and who have been in this country for less than 36 months. Refugees who have been in this country for more than 36 months, and who meet applicable eligibility tests, receive assistance under the Aid to Families with Dependent Children (AFDC), Supplemental Security Income/State Supplementary Payment (SSI/SSP), Medi-Cal, and county general assistance programs.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes expenditures of $46,168,000 (including a 5.3 percent cost-of-living adjustment [COLA] in federal funds for cash and medical assistance provided through the Refugee Cash Assistance program to refugees and entrants in 1985–86. This represents a reduction of $2,096,000, or 4 percent, compared with estimated current-year expenditures for these programs.

The $2.1 million decrease consists of (1) a $3,124,000 reduction due to a 7.7 percent reduction in projected caseloads and (2) a $1,028,000 increase proposed in Item 5180-181-866 for a 5.3 percent COLA. These changes appear to be reasonable and therefore we recommend approval.

Department of Social Services

COUNTY ADMINISTRATION OF WELFARE PROGRAMS

Item 5180-141 from the General Fund and Federal Trust Fund — Budget p. HW 163

Requested 1985–86	$130,274,000 [a]
Estimated 1984–85	122,805,000
Actual 1983–84	110,719,000
Requested increase $7,469,000 (+6.1 percent)	
Total recommended reduction in Item 5180-141-001	730,000
Total recommended reduction in Item 5180-181-001(e)	31,000
Recommendation pending	642,000

[a] Includes $3,052,000 proposed in Item 5180-181-001 for a 2.4 percent "catch-up" cost-of-living increase.

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-141-001—County administration	General	$127,222,000
5180-141-890—County administration	Federal	(360,537,000)
5180-181-001—Cost-of-living adjustments	General	3,052,000
5180-181-890—Cost-of-living adjustments	Federal	(20,886,000)
9680-101-001—Mandated local costs	General	(407,000)
Total		$130,274,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Prior Year COLA Limits and Retroactive COLA for 1985–86. Recommend adoption of Budget Bill language to reflect COLA policies proposed in the Budget Bill.	955
2. Controlling Costs in the Five Most Expensive Counties. Recommend that, prior to budget hearings, the Department of Social Services (DSS) provide the fiscal committees with a plan for reducing costs in the state's five most-expensive counties.	960
3. Cost Control Plan for 1986–87. Recommend adoption of Budget Bill language requiring the DSS to use 1984–85 as the base year for purposes of setting county productivity targets in 1986–87 in order to reflect improvements in productivity that have occurred since 1980–81.	961
4. ***Limit on Special Adult Programs Administrative Costs. Reduce Item 5180-141-001 by $730,000 and Item 5180-181-001(e) by $31,000.*** Recommend reduction of $761,000 to reflect savings that would result from limiting administrative expenditures in the Special Adult programs to no more than 75 percent of program grant costs.	961
5. Statewide Automated Welfare System (SAWS). Withhold recommendation on $1,947,000 ($642,000 from the General Fund and $1,305,000 in federal funds) proposed for the SAWS projects in 1985–86, pending review of the annual SAWS progress report.	962

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation for the state's share of costs incurred by the counties in administering (1) the Aid to Families with Dependent Children (AFDC) program, (2) the Food Stamp program, and (3) special benefits program for aged, blind, and disabled recipients. In addition, the budget identifies the federal and county costs of administering child support enforcement and cash assistance programs for refugees. The costs of training county eligibility and nonservice staff also are funded by this item.

In 1984–85, the counties employ approximately 19,100 persons to administer these and related programs.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $130,274,000 from the General Fund as the state's share of the costs that counties will incur in administering welfare programs during 1985–86. This is an increase of $7,469,000, or 6 percent, over estimated current-year General Fund expenditures for this purpose. The $130 million includes $3,052,000 from the General Fund that is proposed under Item 5180-181-001 to fund the state's 25 percent share of cost-of-living increases granted by the counties to their employees during 1984–85 which will be incurred in the budget year.

The budget proposes total expenditures of $695,441,000 for county administration of welfare programs in 1985–86, as shown in Table 1. This is an increase of $32,611,000, or 5 percent, over estimated current-year expenditures. This amount does not include $407,000 proposed in Item 9680-101-001 to reimburse counties for state-mandated administrative activities and added grant costs.

Proposed General Fund Changes

Table 2 displays the adjustments to General Fund expenditures for county administration proposed for 1985–86. The net increase of $7,469,000 is due, in large part, to two factors:

- Removal of the limitation on state participation in cost-of-living adjustments (COLAs) granted by county welfare departments to their employees in 1981–82, 1982–83, and 1983–84. Additional cost in 1985–86: $5,388,000 ($4,209,000 in AFDC administration and $1,179,000 in food stamp administration).
- A 2.4 percent COLA that would fund the ongoing costs of COLAs granted by counties to their employees in 1984–85. Cost in 1985–86: $3,052,000.

These increased costs are partially offset by a savings of $2,289,000, due to a reduction in the basic costs of AFDC Administration. The reduction in basic costs is due to (1) a proposed change in the base year which is used to set productivity targets for counties (−$2.9 million) and (2) an increase in AFDC caseloads ($0.6 million).

Table 1
Expenditures for County Welfare Department Administration
1983–84 through 1985–86
(in thousands)

	Actual 1983–84				*Estimated 1984–85*				*Proposed 1985–86*			
Program	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
AFDC	$84,134	$180,869	$102,727	$367,730	$94,502	$205,244	$107,566	$407,312	$99,456	$212,731	$110,301	$422,488
Non-Assistance Food Stamps	22,858	52,712	27,333	102,903	24,271	60,863	28,665	113,799	26,690	66,026	31,186	123,902
Child Support Enforcement	—	85,818	36,782	122,600	—	89,025	38,153	127,178	—	94,191	40,366	134,557
a. Welfare	—	(65,915)	(28,251)	(94,166)	—	(69,122)	(29,622)	(98,744)	—	(73,135)	(31,341)	(104,477)
b. Non-Welfare	—	(19,903)	(8,531)	(28,434)	—	(19,903)	(8,531)	(28,434)	—	(21,056)	(9,025)	(30,080)
Special Adult Programs	2,235	—	—	2,235	2,492	—	—	2,492	2,552	—	—	2,552
Refugee Cash Assistance	—	7,107	—	7,107	—	5,428	—	5,428	—	4,938	—	4,938
Staff Development	1,480	3,163	1,616	6,259	1,525	3,336	1,738	6,599	1,561	3,530	1,891	6,982
Adoption Assistance Program	12	6	—	18	15	7	—	22	15	7	—	22
Emergency Food and Shelter	—	4,596	—	4,596	—	—	—	—	—	—	—	—
Subtotal	$110,719	$334,271	$168,458	$613,448	$122,805	$363,903	$176,122	$662,830	$130,274	$381,423	$183,744	$695,441
Local Mandates	(237)	—	(−237)	—	(332)	—	(−332)	—	(407)	—	(−407)	—
Totals	$110,719	$334,271	$168,458	$613,448	$122,805	$363,903	$176,122	$662,830	$130,274	$381,423	$183,744	$695,441

Table 2
County Administration of Welfare Programs
General Fund Changes Proposed for 1985–86
(dollars in thousands)

	Cost	*Total*
1984–85 Expenditures (Revised)		$122,805
A. Adjustments to Ongoing Costs or Savings		
1. AFDC Administration		
a. Basic Costs	−$2,289	
b. End to Extended Unemployment Benefits	162	
c. Court Cases	354	
d. Fraud Prevention/Detection	−171	
e. Statewide Automated Welfare System (SAWS)	214	
f. HR4170	158	
g. Removal of Limitation on State Participation in Prior Year COLAs	4,209	
h. Termination of EWEP	−103	
i. Other	−10	
Subtotal		$2,524
2. Nonassistance Food Stamp Administration		
a. Basic Costs	403	
b. Fraud Prevention/Detection	121	
c. On-Line Issuance System	−217	
d. SAWS		
(i) Central Data Base Conversion	237	
(ii) Automated Intake	35	
e. Removal of Limitation on State Participation in Prior Year COLAs	1,179	
f. Other	1	
Subtotal		$1,759
B. New Costs		
1. AFDC Administration		
a. AB861 WIN Demonstration	100	
2. Food Stamp Administration		
a. SAWS, Standardized Notices of Action	34	
3. Retroactive COLA (2.4%)	3,052	
Subtotal		$3,186
1985–86 Expenditures (Proposed)		$130,274
Change From 1984–85:		
Amount		$7,469
Percent		6.1%

ANALYSIS AND RECOMMENDATIONS

Proposed Policy for Funding County-Granted COLAs Is Consistent with Legislative Intent

We recommend approval.

The Budget Acts of 1981, 1982, and 1983 provided that General Fund support could *not* be used to pay for COLAs granted to county welfare department employees that, in percentage terms, were larger than the COLAs funded by the Legislature in those Budget Acts. The effect of this policy was to prohibit the use of General Fund appropriations to pay for the costs attributable to COLAs granted in 1981–82, 1982–83, and 1983–84 that totaled more than 6 percent, unless the counties could offset the

General Fund costs of the excess COLAs through permanent productivity increases.

By the end of 1983–84, the counties had granted COLAs totaling approximately 16 percent. Under the "COLA cap" policy, however, the state contributed toward the costs attributable to only 6 percentage points of the total 16 percentage point increase. As a result, those counties that chose to provide increases exceeding 6 percent were required to pay for *all* nonfederal costs attributable to the excess.

The 1984 Budget Act Extended the Prior-Year Limit. The 1984 Budget Act granted a 3 percent COLA for 1984–85. It did *not*, however, impose a cap on state funding for COLAs to be granted in 1984–85. Nevertheless, it specified that the state would continue to limit its participation in COLAs granted during the period 1981–82 through 1983–84, pursuant to the COLA cap policy that was in effect during those years.

Removal of Prior-Year COLA Limitations. The COLA policy adopted in the 1984 Budget Act was changed by Ch 1608/84. Specifically, Chapter 1608 appropriated $8.5 million from the General Fund ($5,865,000 for AFDC and Food Stamp Administration and $2,635,000 for Medi-Cal Administration) to augment the county administration budgets, effective January 1, 1985. This amount reflected the administration's estimate of what the General Fund costs would be if the state began paying its share of the costs attributable to excess COLAs provided by counties in 1981–82, 1982–83 and 1983–84. As a result of this measure, on January 1, 1985, the state began paying counties for county administrative activities based on the *actual* salaries and benefits paid to county workers as of 1983–84 plus the 3 percent COLA allowed for 1984–85.

The Governor's Budget proposes to continue the policy of reimbursing counties for the full COLAs they granted in 1981–82, 1982–83, and 1983–84 at a General Fund cost of $16,523,000 ($11,253,000 for AFDC and Food Stamp administration proposed in this item and $5,270,000 for Medi-Cal administration proposed in Item 4260-101-001).

Catch-Up COLAs. The budget also proposes a 2.4 percent *"catch-up" COLA* for county administration in 1985–86, at a General Fund cost of $3,923,000 ($3,052,000 for AFDC and Food Stamp Administration proposed in Item 5180-181-001 and $871,000 for Medi-Cal Administration proposed in Item 4260-106-001). The administration estimates that counties granted COLAs to their employees during 1984–85 averaging 5.4 percent, or 2.4 percentage points higher than the 3 percent COLA that was funded in the 1984 Budget Act. Thus, the catch-up COLA is designed to provide the General Fund's share of costs that will result *in 1985–86* from COLAs granted by counties in 1984–85 that exceeded 3 percent.

It is our understanding that the administration proposes to make permanent this policy of funding county COLAs with a one-year lag. Under such a policy, each year's budget would propose a COLA for county administration based on the actual COLAs granted by counties to their employees during the prior year. Thus, each year, the budget would provide adequate funds to pay counties for AFDC, Food Stamps, and Medi-Cal administration based on their estimated employee salary and benefit levels in the prior year.

The administration's proposals to remove prior-year limitations on COLAs and to establish a permanent policy of providing catch-up COLAs appear to be consistent with the Legislature's intent in enacting Ch 1608/84. We therefore recommend that these proposals be approved.

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

Technical Error in Budget Bill Language

We recommend that the Legislature adopt Budget Bill language that is consistent with the policy of funding county administrative costs based on the average salaries paid in the previous year.

The Budget Bill contains language designed to establish the policies regarding state funding for county-granted COLAs that were discussed in the previous section. The wording of the bill as introduced, however, is inconsistent with the proposed policies. In order to make the bill consistent with the intent of the budget, we recommend that the current language contained in the bill, as introduced, be replaced with the following Budget Bill language under Item 5180-181-001 (A similar provision should be adopted for Medi-Cal administration COLAs under Item 4260-106-001 and for the Adoption program COLAs under Item 5180-181-001.):

"Notwithstanding any other provision of law to the contrary, General Fund money appropriated by this item for Program 10.20, County Administration, shall be used solely to support the General Fund share of 1985–86 county administrative costs based on the average salary levels paid in 1984–85."

Cost Control Measures in County Administration

The Department of Social Services (DSS) allocates funds to counties for the administration of welfare programs using a formula that considers a number of factors, including (1) caseload, (2) productivity targets for eligibility workers, (3) the existing salary structure in each county, (4) allowable cost-of-living increases, and (5) allocated support (overhead) costs. One of the primary objectives of this formula is to control the growth in state-funded county costs for administering welfare programs.

The department calculates the county's allocation of funds for administrative costs in the following way. First, it determines the productivity targets (the number of cases to be handled by an eligibility worker) and supervisory ratios for the county. The cost control plan calls for counties to meet the average of the productivity standards achieved by counties of a similar size during a specific base year, or their own performance during the base year if it was above average. Second, the department determines the allowable salary costs per worker. Third, the department calculates total administration costs by multiplying the DSS May estimates of caseloads in AFDC and food stamps by the average cost per case, which is derived from the productivity target and average salary costs. Several other adjustments are made in order to fund overhead costs, fraud investigation activities, and other special items.

The state's share of these costs is approximately 25 percent of the total. The counties are notified of their allocation early in the budget year. The amount actually paid to a county is determined by adjusting the allocation for actual caseload during the year.

Under this sytem in the past, the state has used two strategies to limit the costs to the General Fund of county administration: (1) it has raised productivity targets and (2) it has limited the allowance for cost-of-living increases to county employees.

Productivity Targets. The cost control plan specifies productivity targets that provide a basis for limiting allocations to counties. In recent years, these targets have been based on county performance during 1977–78 for AFDC administration and 1979–80 for Food Stamp administration. The budget proposes to change the base year used to set productivity targets for AFDC administration in 1985–86. Specifically, the budget proposes using 1980–81, rather than 1977–78, as the new base year. Because counties were, on average, more productive in 1980–81 than they were in the earlier years, the change will result in an ongoing General Fund savings of $2.9 million, beginning in 1985–86.

COLA Limitation. Until 1984–85, the limit on state participation in the costs of county COLAs was a major component of the cost control plan. As noted above, however, this limitation has been removed, at a General Fund cost for county administration of the AFDC program of $4,750,000 in 1984–85 and $8,959,000 in 1985–86.

Thus, under the *current* cost control system, the only way to control General Fund costs for county administration of welfare programs in the long run is through the use of productivity targets.

Costs of Payments Made in Error. The state incurs two types of costs related to the administration of the AFDC program. First, it shares in the direct costs of administering the program, including the costs for salaries and operating expenses and equipment. Second, it funds most of the cost resulting from grant payments made by the counties to individuals who, under state law, are not actually eligible to receive AFDC grants or are paid more than the amount to which they are entitled.

In 1983–84, the most recent year for which data are available, the 35 largest counties made erroneous grant payments that cost the General Fund $47,189,900, an amount equal to 3.8 percent of total General Fund costs for AFDC grant payments made by these counties. The 3.8 percent overpayment rate in 1983–84 represents a slight improvement over the 1982–83 error rate.

We do not believe that these erroneous payments are *necessarily* the result of poor administration by the counties. Some of the errors result from inaccurate information provided by AFDC recipients, rather than from any carelessness on the part of the counties. Nevertheless, we believe the Legislature should consider the costs of erroneous payments as part of the overall costs of county administration for the AFDC program.

Reducing the General Fund Costs of Erroneous Payments. The Department of Social Services (DSS) administers an AFDC quality control program that is designed to reduce the costs of erroneous payments. Under the program, the department identifies counties with high error rates and, in consultation with the affected counties, develops *corrective action plans* that identify the steps that the counties must take in order to reduce their error rates. The department also has the statutory authority to impose *fiscal sanctions* on counties with excessively high error rates. To date, however, the department has never imposed such sanctions.

Review of County Performance. Table 3 compares the costs of county administration for the AFDC program in 1983–84, for each of the 58 counties. The table displays the General Fund cost of both county administrative activities *and* erroneous payments, on a per-case basis. The table groups the counties based on the size of their caseloads—large, medium, small, and very small.

Table 3 shows that the General Fund cost of administrative activities associated with the average AFDC case in the 12 large counties was $10.18 in 1983–84. When the average General Fund cost of erroneous payments made by these counties—$6.54—is added in, the total General Fund cost for administration of the AFDC program in these counties was $16.72 per case.

County Cost Variations. As Table 3 illustrates, the General Fund cost of administering the average AFDC case varies widely among the counties. Among the large counties, for example, Alameda's administration of the AFDC program costs the state more than twice as much, on

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

a per-case basis, as does Riverside's administration of the program. Among the medium-sized counties, San Mateo is 80 percent more costly than Kern, which is the lowest-cost medium-sized county. The range of costs is similar among the small and the very small counties.

Our review of the data displayed in Table 3 indicates that counties with high overall costs can be assigned to one of three categories:

- ***Moderate Administrative Costs Combined with High Erroneous Payment Rates.*** Alameda County and the City and County of San Francisco are examples of counties where administrative costs are more or less in line with those for other counties, but where costs for erroneous payments are far above average (120 percent and 48 percent above the average, respectively). These high erroneous payment rates cause the counties to have very high costs associated with the administration of the AFDC program. Obviously, any plan to bring the overall costs of counties in this category more into line with the

Table 3
Comparison of General Fund Costs of County Administration of AFDC
1983–84

	Administrative Costs per AFDC Case	*Average Costs Per Case For Erroneous AFDC Payments*	*Total General Fund Costs per AFDC Case*
Large Counties			
Alameda	$9.86	$14.40	$24.26
San Francisco	10.95	9.71	20.65
Santa Clara	13.37	6.02	19.39
Los Angeles	11.65	6.35	18.01
San Bernardino	8.35	9.57	17.92
Contra Costa	12.76	3.42	16.18
San Diego	9.75	5.94	15.69
Orange	9.86	5.72	15.58
Fresno	7.66	7.38	15.04
Sacramento	10.11	3.35	13.46
San Joaquin	8.85	3.61	12.46
Riverside	8.93	3.02	11.95
Average, Large Counties	$10.17	$6.54	$16.72
Medium Counties			
San Mateo	$16.22	$5.21	$21.43
Yolo	12.25	6.96	19.20
Butte	9.00	9.58	18.58
Santa Cruz	14.07	4.29	18.36
Monterey	11.25	5.85	17.10
Ventura	10.51	5.88	16.39
Humboldt	8.11	8.08	16.19
Sonoma	10.27	5.69	15.96
Santa Barbara	12.20	3.36	15.55
Merced	8.47	6.94	15.40
Shasta	9.45	5.63	15.08
Solano	10.78	4.23	15.00
Stanislaus	9.25	5.31	14.56
Tulare	8.65	4.79	13.44
Kern	11.63	.17	11.80
Average, Medium Counties	$10.81	$5.46	$16.27

Small Counties			
Marin	$16.87	$6.42 [a]	$23.29
San Luis Obispo	14.20	4.81	19.01
Napa	12.18	6.42 [a]	18.60
Nevada	11.72	6.42 [a]	18.14
El Dorado	12.29	5.74	18.03
Siskiyou	11.22	6.42 [a]	17.64
Placer	9.94	7.63	17.56
Sutter	11.13	6.42 [a]	17.55
Tehama	9.59	6.42 [a]	16.01
Imperial	7.14	8.76	15.90
Lake	8.21	6.42 [a]	14.63
Kings	9.96	4.52	14.48
Mendocino	12.09	2.28	14.37
Yuba	9.94	2.67	12.61
Madera	8.56	1.78	10.34
Average, Small Counties	$11.00	$5.54	$16.54
Very Small Counties [a]			
Mono	$23.04	$6.42	$29.46
Alpine	13.17	6.42	19.59
Colusa	11.51	6.42	17.93
Amador	10.67	6.42	17.09
Trinity	10.27	6.42	16.69
Sierra	9.57	6.42	15.99
Inyo	9.30	6.42	15.72
Tuolumne	9.23	6.42	15.65
Del Norte	7.97	6.42	14.39
Calaveras	7.90	6.42	14.32
Plumas	7.64	6.42	14.06
San Benito	7.49	6.42	13.91
Glenn	6.99	6.42	13.41
Modoc	6.88	6.42	13.30
Mariposa	6.09	6.42	12.51
Lassen	5.77	6.42	12.19
Average, Very Small Counties	$9.85	$6.42	$16.27

[a] Actual costs for erroneous payments made by these counties are unknown. The figures shown reflect average costs in the 35 counties for which these data *are* available.

costs of other counties would have to focus primarily on reducing these counties' payment error rates.

- ***High Administrative Costs Combined with Moderate Erroneous Payment Rates.*** San Mateo and San Luis Obispo Counties are examples of counties where administrative costs are exceptionally high (50 percent and 29 percent above the average, respectively), but where the costs for erroneous errors are relatively moderate. Obviously, any plan to bring the overall costs of counties in this category more into line with the costs of other counties would have to focus primarily on reducing these counties' administrative costs.
- ***High Administrative Costs Combined with High Erroneous Payment Costs.*** Yolo County is an example of a county that combines high administrative costs (13 percent above average) with high erroneous payment costs (27 percent above average). Any plan to bring the overall costs of counties in this category more in line with the costs of other counties would have to focus on reducing *both* administrative and erroneous payment costs.

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

Opportunities for Reducing Costs. The large variation in county welfare department costs suggests that some counties incur higher costs than necessary, thereby imposing unnecessary costs on the state's General Fund. Given the success of other counties in holding down their administration-related costs, it would seem that these counties could achieve substantial reductions in their overall costs of administering the AFDC program, to the advantage of both the counties themselves and the state.

For example, if none of the large counties had exceeded the average overall cost of $16.72 per case in 1983–84, General Fund costs in that year would have been reduced by $7,867,000. If all of the large counties had achieved performance levels comparable to those in Sacramento, San Joaquin, and Riverside (the lowest-cost large counties), the General Fund savings would have totaled $28,370,000. The potential General Fund savings in the medium-, small-, and very small-sized counties obviously would be less in absolute terms, but even in these counties the savings could be significant.

Although it appears possible to reduce costs, especially in those counties that currently have extraordinarily high costs, the goal is not easily achieved or quickly implemented. It is particularly important to note that the large cost variations shown in Table 3 reflect county performance at a time when both the cost control and quality control plans had been in effect for several years. Thus, reducing costs in the highest cost counties probably would require extraordinary efforts—that is, efforts that go beyond those required by the current cost and quality control plans.

Controlling Costs in the Five Most Expensive Counties

We recommend that, prior to budget hearings, the DSS provide the fiscal committees with a plan for reducing costs in the five most expensive counties in the state.

In 1983–84, five counties—Alameda, San Francisco, San Mateo, Marin, and Mono—incurred total General Fund administration-related costs in excess of $20 per AFDC case. On average, these counties incurred overall General Fund costs, on a per-case basis, that were 45 percent above the statewide average.

Because these counties are the five most expensive counties in the state, on a cost-per-case basis, they probably present the Legislature with the best opportunity for achieving General Fund savings in AFDC administration-related costs. Moreover, any reductions in these costs achieved during 1985–86 would yield ongoing savings to the General Fund to the extent that they are incorporated into the way these counties administer the AFDC program. In fact, a reduction of only $1 per case in these five counties would result in annual ongoing General Fund savings of $637,000. If, instead, costs in these counties were brought into line with the average county's costs per case, the General Fund would realize savings of approximately $3.5 million annually. In light of the potential savings to the state discussed above, we recommend that, prior to the budget hearings, the DSS provide the fiscal committees with a plan for reducing costs in these five counties.

In order to allow the Legislature to adequately assess both the feasibility of the plan and the amount of the savings that would result from the plan and, therefore, could properly be reflected in the 1985–86 budget, the department, at a minimum, should provide the following information:

1. A description of the major causes for the high costs experienced by each of the five counties.

2. A description of the specific actions that could be taken to reduce overall costs.

3. An assessment of the probability that such corrective actions will be effective. When applicable, the plan should provide specific examples of the effect that similar corrective actions have had on overall costs in other counties.

4. An estimate of the costs and savings associated with the plan. Specifically, the plan should identify a targeted amount of savings for each county and should specify whether the savings would be achieved through reductions in direct administrative costs, reductions in payments error rates, or both.

Cost Control Plan for 1986–87

We recommend that the Legislature adopt Budget Bill language requiring the DSS to use 1984–85 as the base year for the 1986–87 cost control plan, in order to reflect improvements in productivity that have occurred since 1980–81—the base year proposed for 1985–86.

As we noted above, the elimination of the COLA cap leaves productivity targets as the only way to control the growth in the General Fund cost of county administration. For 1985–86, the DSS proposes to use 1980–81 as the base year for setting county productivity targets for AFDC administration. This will yield General Fund savings because counties were, on average, more productive in 1980–81 than they were in 1977–78—the current base year.

We believe that the base year should again be updated in 1986–87, for two reasons. First, during the 1980–81 to 1984–85 period, there have been substantial changes in the AFDC and Food Stamp caseloads. Many of these changes have made it easier to process cases under the program. For example, the federal Omnibus Reconciliation Act of 1981 (OBRA) made changes that reduced the percentage of the AFDC caseload that has earned income. Cases without earned income generally are easier to process.

Second, during this same period many counties were encouraged by limits on state funding to achieve substantial productivity increases. Actual productivity data for 1984–85 will reflect both the program changes and the productivity improvements that have occurred in recent years.

We therefore recommend that the Legislature adopt Budget Bill language requiring the department to adopt 1984–85 as the base year for setting productivity targets as part of the cost control plans for 1986–87 and subsequent years. The following Budget Bill language is consistent with this recommendation:

"The department shall use 1984–85 as the base year for the cost control plan in preparing the 1986–87 budget."

Limit on Administrative Costs Under the Special Adult Programs

We recommend a reduction of $730,000 in General Fund support for county administration to reflect the savings that would result from a 75 percent limit on the portion of special adult program funds that can be used for administrative costs. (Reduce Item 5180-141-001 by $730,000.)

In our analysis of the Special Adult programs (Item 5180-121-001), we recommend that the Legislature adopt Budget Bill language limiting state

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

reimbursements for county administrative costs for this program to no more than 75 percent of program costs. We estimate that such a limit would result in General Fund savings of $730,000 in the County Administration program and $31,000 for related cost-of-living adjustments. We therefore recommend a reduction of $730,000 in this item and $31,000 in the cost-of-living adjustment item to reflect the savings that would result from such a limit.

Statewide Automated Welfare System

We withhold recommendation on $1,947,000 ($642,000 from the General Fund and $1,305,000 in federal funds) requested for three Statewide Automated Welfare System (SAWS) projects, pending review of the annual SAWS progress report.

We discuss the SAWS project in detail as part of our analysis of the Department of Health Services' budget (please see Item 4260-001-001). We are withholding recommendation on the funding requested for the SAWS project, pending our review of the annual SAWS progress report that DSS is required, by law, to provide to the Legislature by March 1 each year.

AFDC and Food Stamp Performance Measures Report

The *Supplemental Report of the 1984 Budget Act* required the DSS to submit a report, by January 1, 1985, on the feasibility of developing measurements of the speed and accuracy with which the various counties determine eligibility and issue benefits under the AFDC and Food Stamp programs. The report was submitted on January 1, 1985. We are in the process of reviewing the report.

Department of Social Services
SOCIAL SERVICES PROGRAMS

Item 5180-151 from the General Fund and Federal Trust Fund — Budget p. HW 165

Requested 1985–86	$296,183,000 [a]
Estimated 1984–85	224,457,000
Actual 1983–84	161,322,000
Requested increase $71,726,000 (+32.0 percent)	
Total recommended reduction in Item 5180-151-001	4,705,000
Total recommended reduction in Item 5180-181-001 (b)	78,000
Recommendation pending	2,853,000

[a] This amount includes $22,277,000 proposed in Item 5180-181-001 (b) for Cost-of-Living increases.

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-151-001—Social Services programs, local assistance	General	$273,906,000
5180-151-890—Social Services programs, local assistance	Federal	(396,335,000)

5180-181-001 (b)—Social Services programs, local assistance—COLA	General	22,277,000
5180-181-890—Social Services programs, local assistance—COLA	Federal	(1,382,000)
Total		$296,183,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Federal Funds. Reduce Item 5180-151-001 (General Fund) by $300,000 and increase Item 5180-151-890 (Federal Funds) by $300,000.*** Recommend reduction to reflect the availablility of supplemental federal funds provided for new training programs and to increase the legislature's fiscal flexibility. Further recommend that, prior to budget hearings, the department submit to the Legislature an expenditure plan for $2.4 million in federal funds not included in the budget. 968
2. Child Welfare Services (CWS). Recommend that, prior to budget hearings, the Department of Finance advise the fiscal committees how it proposes to meet required service levels in the CWS program, given that the department's estimate of program requirements exceeds the budget request by $35.1 million. 969
3. In-Home Supportive Services (IHSS)—Assessments and Service Awards. Recommend that the Legislature adopt supplemental report language directing the department to provide an evaluation of and plan for its efforts to increase uniformity and equity in the provision of IHSS services. 973
4. IHSS—Revised Allocation Formula. Recommend that the Legislature adopt supplemental report language directing the department to evaluate the effects of its new allocation formula on county IHSS programs and report to the Legislature by January 1, 1986. 975
5. ***IHSS—Time-per-Task Standards. Reduce Item 5180-151-001 by $1,950,000 (General Fund) and reduce Item 5180-181-001 by $78,000—COLA (General Fund).*** Recommend reduction to reflect savings that will result from the department's implementation of statewide time-per-task standards. 976
6. Work Incentive (WIN)—Transfer from the Employment Development Department. Withhold recommendation on $2.9 million requested to fund new county activities required to implement the WIN Demonstration Project, pending receipt of the May revision of expenditures. 977
7. ***Adoptions—Transfer to Counties. Reduce Item 5180-151-001 by $2,455,000 (General Fund) and increase Item 5180-001-001 by $2,530,000 (General Fund).*** Recommend that the proposed transfer of adoptions programs to the counties be rejected and funding for state staff needed to provide adoptions services be restored. (Further, reduce Item 5180-181-001 [General Fund] to reflect the reduced need for cost-of-living adjustment if this recommendation is approved.) 978
8. Adoptions—Cost-of-Living Adjustment (COLA) Limits. Recommend approval of the proposal to remove limits on 980

SOCIAL SERVICES PROGRAMS—Continued

the state's share of the costs associated with prior-year COLAs. Further recommend that the Legislature provide a 2.4 percent catch-up COLA for the adoptions programs, as the budget proposes for other county-administered welfare programs (reduce Item 5180-181-001 by $314,000).

9. Adoptions—Performance Reports. Recommend adoption of supplemental report language directing the department to submit a report, as specified, concerning the Relinquishment Adoptions program. 981

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers various programs that provide services, rather than cash, to eligible persons who need governmental assistance. The six major programs providing services are (1) Other County Social Services (OCSS), (2) Specialized Adult Services, (3) Specialized Family and Children's Services, (4) Adoptions, (5) Refugee programs, and (6) Child Abuse Prevention.

Federal funding for social services is provided pursuant to Titles IV-A, IV-B, IV-C, IV-E, and XX of the Social Security Act and the Federal Refugee Act of 1980. In addition, 10 percent of the funds available under the federal Low-Income Home Energy Assistance (LIHEA) block grant are transferred to Title XX social service programs each year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests an appropriation of $296.2 million from the *General Fund* to support social services programs in 1985–86. This is an increase of $71.7 million, or 32 percent, above estimated current-year expenditures. In addition, there is $11.6 million available in 1985–86 for expenditure under child abuse prevention programs as a result of Ch 1638/84.

The budget proposes $772.7 million in expenditures from *all funds* ($706.3 million in appropriated funds [state and federal funds] and $66.4 million in *anticipated* county expenditures) to support social services programs. Table 1 displays program expenditures and funding sources for these programs in the past, current, and budget years.

Table 1
Department of Social Services
Social Services Programs
Expenditures From All Funds
1983–84 through 1985–86 [a]
(dollars in thousands)

Programs	Actual 1983–84	Estimated 1984–85	Proposed 1985–86 [b]	Change from 1984–85 Amount	Change from 1984–85 Percent
A. Other County Social Services	$232,733	$273,130	$294,928	$21,798	8.0%
1. Child Welfare Services	(—)	(209,261)	(222,718)	(13,457)	6.4
2. County Services Block Grant	(—)	(63,869)	(72,210)	(8,341)	13.1
B. Specialized Adult Services	290,951 [d]	333,216	375,129	41,913	12.6
1. In-Home Supportive Services	(286,800)	(328,439)	(370,161)	(41,722)	12.7
2. Maternity Care	(2,100)	(2,167)	(2,254)	(87)	4.0
3. Access Assistance for the Deaf	(2,051) [d]	(2,610)	(2,714)	(104)	4.0
C. Special Family and Children's Services	—	13,871	16,346	2,475	17.8
D. Work Incentive program	11,277	—	—	—	—
E. Adoptions	18,770	24,843	27,938	3,095	12.5

F. Demonstration programs	9,626	11,879	—	−11,879	−100.0
G. Refugee programs	26,077	39,382	35,193	−4,189	−10.6
H. Child Abuse Prevention	—	—	23,145	23,145	100.0
Totals	$589,434 [d]	$696,321	$772,679	$76,358	11.0%
Funding Sources					
General Fund	*$161,095* [d]	*$224,457*	*$307,808* [c]	*$83,351*	*37.1%*
Federal funds	*373,747*	*412,711*	*397,717*	*−14,994*	*−3.6*
County funds	*54,592*	*60,197*	*66,393*	*6,196*	*10.3*
Children's Trust Fund	—	*−1,044*	*761*	*1,805*	*172.9*

[a] Includes actual 1983–84 and anticipated 1984–85 and 1985–86 county expenditures.
[b] Includes funds for COLAs ($22,277,000 from the General Fund, $1,382,000 in federal funds, and $3,541,000 in county funds).
[c] Includes expenditures of $296,183,000 requested in the budget bill and $11,625,000 available from prior appropriations.
[d] Does not equal amounts shown in the Governor's Budget due to technical errors in the budget document.

Significant Budget Changes

Table 2 shows that the proposed level of expenditures from all funds for social services in 1985–86 is $76.4 million, or 11 percent, above estimated current year expenditures. It also shows the various changes in funding for the various social services programs that are proposed for the budget year. The more significant changes are as follows:

- An increase of $27.2 million to provide COLAs for various social services programs.
- An increase of $24.2 million due to increased caseloads in the In-Home Supportive Services (IHSS) program.
- An increase of $12.1 million due to increased caseloads in the OCSS program.
- An increase of $11.5 million to fund child abuse prevention projects established by Ch 1398/82, Ch 1618/84, and Ch 1638/84.
- A reduction of $5.0 million that results from the completion, during 1984–85, of efforts to reduce the backlog of adoptions cases.
- An increase of $4.8 million proposed to pay for the removal of the limitation on state participation in the 1985–86 cost of COLAs granted by counties to adoptions workers in prior years.
- A decrease of $4.2 million in refugee programs due to a reduction in federal funds.
- An increase of $2.9 million due to the transfer of the WIN demonstration project from EDD to DSS.
- An increase of $2.5 million to pay for the transfer of the adoptions program from the state to the counties.
- An increase of $2.4 million to fund IHSS caseload increases that will result from screening potential nursing home residents for IHSS eligibility prior to their admittance to a nursing home (Gatekeeper).
- A decrease of $2.1 million due to savings in administrative costs made possible by an IHSS management information system.

The proposed increase of $76.4 million from all funds consists of (1) a General Fund increase of $83.4 million, or 37 percent, (2) a federal funds decrease of $15.0 million, or 4 percent, (3) an increase in county funds of $6.2 million, or 10 percent, and (4) an increase of $1.8 million from the Children's Trust Fund. The General Fund bears a disproportionate share of the increase in the costs of social services programs due to the following limits on county and federal funding sources:

SOCIAL SERVICES PROGRAMS—Continued

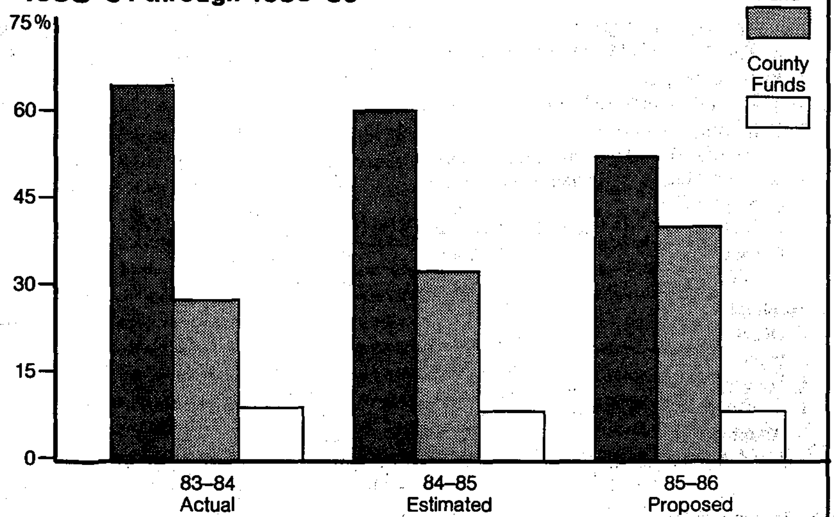
Table 2
Department of Social Services
Social Services Programs
Proposed Budget Changes
All Funds
(dollars in thousands)

1984–85 Expenditures (revised)		$696,321
A. Proposed changes:		
1. Other County Social Services		
a. Increased caseload	$12,147	
b. Effective date of payment	94	
c. IHSS notice of action (AB 223)	87	
d. Administrative savings due to IHSS Management Information System	−2,130	
e. Increased administrative costs due to Gatekeeper program	257	
		$10,455
2. In-Home Supportive Services		
a. Increased caseload	$24,240	
b. Management Information System	703	
c. Increased caseload due to Gatekeeper program	2,345	
d. Other	63	
		$27,351
3. Special Family and Children Services		
a. WIN Demonstration Project (AB 862)	$2,853	
b. Job Training Partnership Act Child Care	−378	
		$2,475
4. Adoptions		
a. SB 14 elimination of caseload backlog	−$4,958	
b. Prior-year COLA	4,846	
c. Transfer state adoption programs to counties	2,455	
d. Other	−143	
		$2,200
5. Demonstration programs		
a. Transfer to Child Abuse Prevention		−$11,879
6. Refugee programs		
a. Federal funding reduction		−$4,189
7. Child Abuse Prevention		
a. Transfer from Demonstration Project	$11,879	
b. Child Abuse Prevention Training (Ch 1638/84)	9,712	
c. Respite Care Project	−610	
d. Child Abuse Prevention Projects (Ch 1398/82)	−41	
e. Child Abuse Prevention Pilot Projects (Ch 1618/84 and Ch 1638/84)	1,805	
		$22,745
B. Proposed COLAs		
1. OCSS	$11,343	
2. IHSS	14,371	
3. Maternity Home Care	87	
4. Deaf Access	104	
5. Adoptions	895	
6. Child Abuse Prevention	400	
		$27,200
1985–86 Expenditures (proposed)		$772,679
Change from 1984–85:		
Amount		$76,358
Percent		11.0%

- ***Limits On County Share of Costs.*** Senate Bill 14 limits the county share of costs for the OCSS program to the percentage cost-of-living increase provided for the program. As a result, the state will fund 99 percent of the nonfederal share of cost *increases* proposed for the OCSS program in 1985–86. The counties will pay for the remaining 1 percent increase in costs. The large state share of the increase is the result of shifting Title XX funds out of OCSS into IHSS and replacing them in OCSS with General Funds. Similarly, state law (Ch 69/81) limits the county share of costs under the IHSS program to 10 percent of any *increase* in total program costs over a specified base amount.
- ***Limited Federal Funds.*** Federal funds (Title XX, Title IV-B, Title IV-C, Refugee, and LIHEAP) are made available to California based on federal appropriation levels and the state's share of the nation's population (or other demographic measures). These funds are not provided based on a sharing ratio as they are in other programs such as Aid to Families with Dependent Children. Thus, although expenditures in the program supported by Title XX (IHSS) are budgeted to grow by 11 percent in 1985–86, California's Title XX allocation for federal fiscal year (FFY) 1986 is only expected to be about 0.8 percent higher than the state's allocation for FFY 1985.

Chart 1 shows a consistent increase in the General Fund share of costs for Social Services programs and a corresponding decrease in the federal share of program costs.

Chart 1
Social Services Programs Percentage of Expenditures By Fund Source 1983–84 through 1985–86



SOCIAL SERVICES PROGRAMS—Continued

ANALYSIS AND RECOMMENDATIONS

Unbudgeted Federal Title XX Funds

We recommend that the source of funding for new training programs be shifted from the General Fund to federal funds in order to take advantage of federal funds that recently became available and to increase the Legislature's fiscal flexibility. (Reduce Item 5180-151-001 by $300,000; increase Item 5180-151-890 by $300,000.) We further recommend that prior to budget hearings, the department develop an expenditure plan for $2.4 million in federal funds that are not included in the budget.

The budget proposes an expenditure of $291.7 million of federal Title XX funds for social services programs in 1985–86. This amount includes California's allotment of the federal appropriation for federal fiscal year 1986 ($288.9 million) and carryover funds from state fiscal year 1984–85 ($2.8 million).

On October 12, 1984, PL 98-473 appropriated an additional $25 million in Title XX funds nationwide. California's share of the appropriation is $2,654,754. Because California's specific share of the appropriation was not known until January 15, 1985, the $2,654,754 is not included in the state budget for 1985–86.

Public Law 98-473 specifies that the funds be used only to supplement current funding levels to provide training for:

- Providers of licensed or registered child care services.
- Operators and staff (including those receiving in-service training) of licensed or registered child care facilities.
- Day care licensing and enforcement officials.
- Parents.

Public Law 98-473 prohibits the supplanting of *existing* funds used to support these training programs. The Legislature, however, *could* use the $2.7 million to fund *new* training activities that are proposed in the budget. By doing so, the Legislature would free-up money in the General Fund, which could then be used to support other legislative priorities. Doing so would increase the Legislature's fiscal flexibility.

We find that the budget proposes a $300,000 General Fund expenditure for *new* child care-related training pursuant to the requirements of Ch 1615/84 (SB 1754). We recommend that $300,000 of the supplemental federal appropriation be used instead of General Fund monies for this purpose.

If the Legislature approves this recommendation, there would still be $2.4 million in federal funds available to support other training programs. Accordingly, we recommend that prior to budget hearings, the department provide the fiscal committees with an expenditure plan for the $2.4 million. The expenditure plan should give consideration to using PL 98-473 funds to support new training activities that are already proposed in the budget to be funded from the General Fund.

OTHER COUNTY SOCIAL SERVICES

Proposed Funding for OCSS. The budget proposes total spending of $294.9 million for the OCSS program in 1985–86. This amount consists of $53 million in federal funds (Titles IV-A, IV-B, and IV-E), $187.3 million in General Fund support, and $54.7 million in county funds. The total includes $11.3 million for a COLA proposed separately under Items 5180-181-001 and 5180-181-890. The total amount proposed for OCSS reflects an increase of $21.8 million, or 8 percent, over the 1984–85 level. Of the total amount proposed for OCSS, $222.7 million is proposed for the Child Welfare Services (CWS) program and $72.2 million is for the County Services Block Grant (CSBG).

County Services Block Grant. The CSBG programs include IHSS administration, Out-of-Home Care and Protective Services for Adults, Information and Referral, Staff Development, and 13 optional programs.

Child Welfare Services. The CWS program provides services to abused and neglected children and children in foster care, and their families. Chapter 978, Statutes of 1982 (SB 14), created the following four CWS programs:

- ***The Emergency Response program*** requires counties to provide immediate social worker response to allegations of child abuse and neglect. In addition to initial investigation and intake, the program provides supportive services for abused and neglected children and their parents or guardians. These services may include counseling, emergency shelter and care, and transportation.
- ***The Family Maintenance program*** requires counties to provide ongoing services to children (and their families) who have been identified through the Emergency Response program as victims, or potential victims, of abuse or neglect. The primary goal of the program is to allow children to remain with their families under safe conditions, thereby eliminating unnecessary placement in foster care. Services provided through this program include social worker case management and planning, as well as supportive services such as counseling, emergency shelter and care, in-home caretakers, and teaching and demonstrating homemakers.
- ***The Family Reunification program*** requires counties to provide services to children in foster care who have been temporarily removed from their families because of abuse or neglect. The program also provides services to the families of such children. The primary goal of the program is to safely reunite these children with their families. Services provided through this program include social worker case management and supportive services.
- ***The Permanent Placement program*** requires counties to provide case management and planning services to children in foster care who cannot be safely returned to their families. The primary goal of the program is to ensure that these children are placed in the most family-like and stable setting available, with adoption being the placement of first choice.

We will issue a report in the spring of 1985 on the effect of Chapter 978 on the CWS program and on children and families in California.

Underfunding of Child Welfare Services

We recommend that, prior to budget hearings, the Department of Finance advise the fiscal committees how the administration proposes to meet the service level requirements for the Child Welfare Services (CWS) program, given that the Department of Social Services projects funding requirements for the program that exceed the amount requested in the budget by $35.1 million.

The budget proposes $222.7 million from all funds for the CWS programs in 1985–86. Of this amount, $53.6 million are federal funds, $40.6 million are county funds, and $128.5 million is from the General Fund.

SOCIAL SERVICES PROGRAMS—Continued

Based on our review of the proposed CWS budget, we conclude that the program is underfunded by approximately $35.1 million. This underfunding results from the administration's decision to limit the state's contribution toward the cost of COLAs granted by county welfare departments to their employees in prior years. Specifically, the administration estimated the costs of the CWS program for 1985–86 based on the cost of social worker salaries and other operating expenses *in 1980–81,* adjusted for the COLAs provided by the state between 1981–82 and 1984–85, which totaled 9 percent.

The administration's proposal apparently is based on the policies established in the Budget Acts of 1981, 1982, and 1983 that the state would not share in the costs of any county-granted COLAs which exceeded the percentage COLA granted in the Budget Act. (Surprisingly, the administration took the lead in overturning this policy for other county-administered programs, as discussed below.)

In reality, counties have granted COLAs and other salary increases to their employees that total 34 percent between 1981–82 and 1984–85. The department estimates that by 1984–85 the average cost to the counties of employing one social worker (including related overhead costs) will be $58,125 per year. The budget for 1985–86, however, assumes that an average social worker costs $47,500 per year.

The budget's proposal to limit the General Fund share of costs associated with prior-year COLAs granted by the counties is questionable, for two reasons:

- ***The proposal is completely inconsistent with what the budget itself proposes in connection with other county-administered welfare programs.*** The budget proposes to fund the county administrative costs of the AFDC, Food Stamp, Medi-Cal, and Adoptions programs in 1985–86 based on the *actual* salaries paid to county eligibility and social workers in 1984–85. (We discuss this proposal in detail as part of our analysis of the budget request for county administration, Item 5180-141-001.) It does so by removing the prior-year COLA cap limits and requesting a 2.4 percent "catch-up" COLA for 1985–86.

  We recommend approval of the budget proposal to base funding for county administration of these programs on actual salary and benefit costs because the proposal is consistent with the Legislature's intent in enacting Ch 1068/84. This act appropriatated $8.5 million to pay the cost of removing the prior-year COLA limits, effective January 1, 1985, with respect to the AFDC, Food Stamp, and Medi-Cal administration programs. We know of no reason why the budget should reject this policy—a policy the administration proposed in last year's budget —when calculating the state's share of costs associated with county employees who work in the CWS program.
- ***The proposal would not provide adequate funds to ensure that the counties will provide the level of child welfare services required by law.*** The Department of Social Services assumes that, given the current CWS caseloads, counties will need to employ 3,987 social workers in 1985–86 to perform the duties required by SB 14. The budget requests, however, only enough funds to support 3,257 social workers—730 fewer workers than what the department believes is needed. Nor does the budget offer any assurance that the counties will *voluntarily* provide funds in excess of their required match to make up for the shortfall in state funds. In fact, according to preliminary data supplied by DSS, the amount of the county overmatch for this

program has been declining in recent years—from $10 million in 1981–82 to $8.0 million in 1983–84.

We therefore conclude that if the level of funding proposed by the administration is approved, the counties will *not* provide the minimum levels of child welfare services required by law.

In view of the above, we recommended that, prior to budget hearings, the Department of Finance advise the fiscal committees how it proposes to assure that required service levels under the CWS program are reached in 1985–86, given that the Department of Social Services' estimate of funding requirements for this program exceeds the budgeted amount by $35.1 million.

IN-HOME SUPPORTIVE SERVICES

The IHSS program provides assistance to eligible aged, blind, and disabled persons to enable them to remain in their own homes when they might otherwise be placed in boarding or nursing facilities. An individual is eligible for IHSS if he/she meets one of the following conditions:

- Satisfies all SSI/SSP eligibility criteria.
- Was once eligible for SSI/SSP due to disability and although now substantially employed, still has the disability.
- Has income that exceeds the SSI/SSP limits, but is otherwise eligible for SSI/SSP and is willing to pay a share of the costs of services provided by IHSS.

The IHSS program provides two broad categories of services. These services are (1) domestic and related services and (2) nonmedical personal services. Domestic and related services include routine cleaning, meal preparation, shopping, and other household chore services. Nonmedical personal services include feeding, bathing, bowel and bladder care, and other services. In addition to these types of services, recipients may also receive essential transportation services, yard hazard abatement, heavy cleaning, protective supervision, teaching and demonstration, and paramedical services.

The IHSS program is administered by county welfare departments. Each county may choose to deliver services in one or a combination of three ways: (1) directly, by county employees, (2) by private agencies under contract with the counties, or (3) by individual providers hired directly by the recipients. The most common service delivery method involves the use of individual providers. The department estimates that individual providers will provide services to 79 percent of all IHSS recipients in 1984–85.

Status of the Current-Year Budget

The department estimates that expenditures for the IHSS program in 1984–85 will exceed the current-year appropriation by $1,231,000. This net increase is the result of the following individual increases and decreases:

- An increase of $12,828,000 due to a caseload that is 4.4 percent, or 4,526 recipients, above the 102,192 recipients estimated in the 1984 Budget Act.
- A savings of $12,589,000 due to a revised estimate of the amount of protective supervision services required by the courts in *Community Services v. Woods.*
- An increase of $1,271,000 for increased caseload resulting from the

SOCIAL SERVICES PROGRAMS—Continued

implementation of the preadmission screening program (Gatekeeper) by the Department of Health Services.

- A savings of $445,000 resulting from the fact that the amount needed for a COLA was overestimated.
- An increase of $166,000 for provider payrolling costs.

At the time this analysis was prepared, the department indicated that it is not requesting additional funds to cover the shortfall. The department advises that the May revision will provide a better basis for determining how much additional funding is needed in the current year.

Proposed Budget-Year Expenditures

The budget proposes $370.2 million in expenditures for IHSS in 1985–86. This is an increase of $41.7 million, or 13 percent, above estimated current-year expenditures. The significant changes that account for the increase are as follows:

- An increase of $23.6 million to fund basic caseload increases.
- An increase of $14.4 million to fund COLAs for providers (4.0 percent) and grant recipients (5.3 percent).
- An increase of $2.3 million to fund caseload increases due to the Gatekeeper program.
- An increase of $703,000 to implement a management information system.
- An increase of $710,000 to fund various other program changes.

Table 3 displays IHSS program expenditures by funding sources for the past, current, and budget years.

Table 3
Department of Social Services
IHSS Program
Expenditures and Funding Sources
1983–84 through 1985–86
(dollars in thousands)

	Actual 1983–84	*Estimated 1984–85*	*Proposed[a] 1985–86*	*Change from 1984–85*	
				Amount	*Percent*
General Fund	$115,783	$150,311	$60,553	–$89,758	–59.7%
Federal funds	168,397	171,282	298,670	127,388	74.4
County fund	2,620	6,846	10,938	4,092	59.8
Totals	$286,800	$328,439	$370,161	$41,722	12.7%

[a] Includes proposed COLA of $14,371,000.

Table 3 shows that, while expenditures for the IHSS program from all funds are expected to *increase* by 13 percent, expenditures from the General Fund are expected to *decrease* by 60 percent. The decrease in General Fund expenditures results from the department's proposal that *all* federal Title XX funds be budgeted in the IHSS program, thus supplanting a portion of the General Fund support for the IHSS program. In past years, Title XX funds were used to support IHSS, as well as the OCSS program. As a result of the department's proposal, the General Fund monies that will be supplanted by federal funds are now budgeted in the OCSS program.

The budget estimates that the number of persons served by the IHSS program will increase by 7,726, or 7.2 percent, above the estimated number of persons served in the current year. Table 4 displays the average monthly caseload, by service delivery type, for the past, current, and budget years.

Table 4
Department of Social Services
IHSS Program
Average Monthly Caseload
By Provider Type
1983–84 through 1985–86

Service Provider Types	*Actual 1983–84*	*Estimated 1984–85*	*Proposed 1985–86*	*Change from 1984–85*	
				Amount	*Percent*
Individual providers	78,574	84,519	91,571	7,052	8.3%
Contract provider agencies	20,003	20,701	21,373	672	3.2
County welfare staff	1,467	1,498	1,500	2	0.1
Totals	100,044	106,718	114,444	7,726	7.2%

Efforts to Increase Uniformity and Equity in Assessments and Service Awards

We recommend that the Legislature adopt supplemental report language directing the department to: (1) establish measurable objectives with regard to increasing uniformity and equity in the provision of IHSS services, (2) evaluate the various means for achieving those objectives, (3) establish an implementation plan for increasing uniformity and equity, and (4) report its findings to the Legislature by January 1, 1986.

Currently, state law mandates the types of services that are available to recipients under the IHSS program. Services to IHSS recipients include domestic and related services, heavy cleaning, nonmedical personal services, travel to medical facilities and other essential transportation, yard hazard abatement, protective supervision, teaching and demonstration, and paramedical services.

Within broad guidelines established by the state, county social workers determine the type and amount of IHSS services which clients receive. Social workers determine the need for services by assessing a client's level of impairment. The policies and standards for determining the client's level of impairment, however, vary greatly among counties. In addition, counties develop the standards used by social workers to determine the number of hours of services that an individual will receive, based on their assessment of the client's impairment. As a result, the number of hours of service awarded to clients with similar levels of impairment vary widely among counties.

Our analysis of both the 1983–84 and 1984–85 Budget Bills have included extended discussions of this variability (please see p. 1174 of the *Analysis of the 1983–84 Budget Bill* and p. 1293 of the *Analysis of the 1984–85 Budget Bill*).

The problem of uniformity of service continues to warrant the Legislature's attention for two reasons. First, the lack of uniformity indicates that scarce resources are not used as efficiently as possible. For example, the data indicates that some IHSS recipients are overserved relative to other recipients. To the extent that some of these services can be shifted to other

SOCIAL SERVICES PROGRAMS—Continued

more needy recipients, state and federal funds will be used more efficiently. Second, as the IHSS program continues to grow, the problems of disparate treatment and inefficient use of resources will become more troublesome. It is likely that in the future, the cost of this program will rise more rapidly than it has in the past due to (1) the increasing awareness that in-home services can effectively help keep persons from entering nursing homes and (2) the recent implementation of the Gatekeeper program, which requires that all potential nursing home patients be screened prior to being admitted to a nursing home for the purpose of determining if IHSS could allow them to remain in a community living arrangement.

The department and the Legislature have taken several steps to promote uniformity in IHSS assessments and service awards. Specifically, the Legislature has:

- Authorized funding for the University of California to conduct a three-year study designed to test the ability of a computer-assisted service award sytem to produce more equitable awards.
- Directed the department to evaluate the feasibility of implementing statewide time-per-task standards.

The department has, or expects to:

- Implement statewide time-per-task standards in three counties on a pilot basis (1984–85).
- Revise IHSS regulations regarding assessment procedures (1984–85).
- Adopt a formula for more equitably allocating the IHSS appropriation to counties in order to even out differences in costs per case (1984–85).
- Review selected counties for compliance with state regulations and management practices (1985–86).
- Implement a management information system that will provide an information base for monitoring counties' assessment and service award practices (1985–86).

Clearly, both the Legislature and the department have taken steps to promote uniformity in the delivery of services in the IHSS program. We conclude from our discussions with the department that what remains to be done is to organize the various efforts into a comprehensive approach to this problem. This would require that the department establish measurable objectives for achieving uniformity in the provision of IHSS, evaluate the various means for achieving those objectives, and adopt an implementation plan. This would enable the Legislature to review and approve the action proposed to increase uniformity, and to monitor the department's progress in carrying out these actions. For these reasons, we recommend that the Legislature adopt supplemental report language directing the department to establish measurable objectives for achieving uniformity in the provision of IHSS, evaluate the various means for achieving these objectives, establish an implementation schedule, and report its findings to the Legislature by January 1, 1986. The following supplemental report language is consistent with this recommendation.

"The Department of Social Services shall prepare an evaluation of its efforts to increase statewide uniformity in the IHSS assessment process and to standardize the award of service hours. The department shall report its findings to the Legislature by January 1, 1986. The department's evaluation shall include the following:

"1. A statement of measurable objectives. The objectives may include (a) a specified variance between counties in the percentage of clients that receive a specific service, (b) a specified variance in the total hours awarded for clients with similar levels of disability, and (c) any other appropriate objectives.

"2. An analysis of specifically how each of the following will contribute to the achievement of objectives developed pursuant to paragraph (1):
"a. Statewide time-per-task standards.
"b. Compliance and management reviews of counties.
"c. Santa Cruz Pilot Project.
"d. Revised IHSS regulations.
"e. IHSS Management Information System.
"f. Equity Assessment Model, as used in Alameda County.
"g. Revised allocation formula implemented in 1984–85.
"h. Any other means the department may develop in order to achieve the objectives developed pursuant to paragraph (1).

"3. An implementation plan that shows the expected time-frame for achieving the objectives developed pursuant to paragraph (1)."

New Basis for Allocating IHSS Funds to Counties

We recommend that the Legislature adopt supplemental report language directing the department to evaluate the effects of its new allocation formula on county programs and report its findings to the Legislature by January 1, 1986.

Prior to 1984–85, state and federal funds for the IHSS program were allocated to the 58 counties by the department based on each county's prior-year expenditures and estimated caseload growth.

Because the allocation formula relied on past-year expenditures, it favored some counties and penalized others. Some county welfare department staff point out that county efforts to hold down costs and to avoid program reductions in one year cause the county to be penalized in the next year. This occurs because counties that exercise fiscal restraint within the program are likely to show little growth in caseloads or expenditures relative to other counties that do not exercise restraint. Consequently, under the formula, counties that may have exercised fiscal restraint get a smaller proportion of the next year's appropriation relative to other counties that *have* had significant caseload or expenditure growth.

To address this problem, the department assembled a taskforce composed of state and county welfare department staff to develop a new allocation formula. The formula developed by the taskforce and implemented by the department in 1984–85 allocates funds among counties based on each county's share of the statewide (1) population aged 65 years and older, (2) population of SSI/SSP recipients, and (3) prior-year IHSS expenditures and caseloads.

In order to minimize the adverse fiscal effect on individual counties, the department is phasing in the new allocation formula over a three-year period. During the first three years of the new allocation formula (1984–85 through 1986–87) greater weight will be given to prior year expenditures and caseloads as a basis for allocating the funds. After the third year (1986–87) IHSS caseloads will not be a factor in the allocation and prior-year expenditures will serve as a basis for allocating only 25 percent of the total appropriation.

SOCIAL SERVICES PROGRAMS—Continued

The fiscal effect of the allocation formula varies by county. The new allocation formula provides counties with no less funds than they received in the prior year. Because of the population factors used, however, some counties will receive less of an increase than they would have received under the old formula, and some counties will receive more of an increase. More importantly, the formula changes the base amount of funds upon which each county's 10 percent share of costs is calculated. As a result, some counties now will be required to provide their 10 percent match on a larger base amount of funds, and, thereby increase their support for the program. For example, under the new allocation formula, Los Angeles County is required to provide a 10 percent match of $3.9 million in 1984-85. We estimate that, if the base had not been reallocated, the county's match would have been $2.7 million, or $1.2 million less. Other counties' required matches are less than they would have been.

The department's new allocation formula may reduce the inequities that resulted from use of the previous allocation formula. At the same time, by giving some counties a significantly larger fiscal stake in the IHSS program the department's new allocation formula strenghthens these counties' incentive to reduce costs or services.

We believe the Legislature needs to closely monitor the department's implementation of the new allocation formula, given the significant fiscal and program effects that changes in county allocations can have. Therefore, we recommend that the Legislature adopt supplemental report language directing the department to prepare a report by January 1, 1986, which evaluates the effect of the 1984-85 and 1985-86 allocations on county programs. Specifically, we recommend adoption of the following language:

"The DSS shall evaluate the effect of the 1984-85 and 1985-86 allocations on each county's IHSS program and report its findings to the Legislature by January 1, 1986. The evaluation shall include for each fiscal year:

"1. The effect of the allocation on county costs per case.

"2. The effect of the allocation on county caseloads.

"3. The effect of the allocation on the reduction in services, if any.

"The department shall also include in the report a discussion of any changes or proposed changes in the allocation formula presented in the *August 1984 Allocation Taskforce Report.*"

Savings Due to Statewide Time-Per-Task

We recommend a General Fund reduction of $2,028,000 ($1,950,000 from this item and $78,000 from Item 5180-181-001—the COLA item) to reflect the estimated savings that will result from the department's implementation of statewide time-per-task standards.

The department indicates that significant state savings may be achieved by implementing statewide time-per-task standards. Recently, it completed a pilot project in three counties that tested the feasibility of implementing these standards. Preliminary results show that imposing time-per-task limits for laundry, food shopping, and other shopping and errands will reduce the number of hours awarded to some clients without adversely affecting their ability to live independently in their own homes. The department expects to complete the required changes to IHSS regulations, and implement the time-per-task standards by January 1, 1986. As a result, the department estimates that state savings of $3.9 million to $6.5 million will be achieved in 1985-86.

The budget does not reflect any of these savings. Based on the department's expected implementation, we believe that an amount equal to one-half of the minimum state savings should be deleted from the budget to reflect implementation of statewide time-per-task standards. Accordingly, we recommend a General Fund reduction of $2,028,000. ($1,950,000 from Item 5180-151-001 and $78,000 for related COLA from Item 5180-181-001.)

Transfer of Work Incentive (WIN) Program from EDD

We withhold recommendation on $2.9 million requested to fund new county activities needed to implement the WIN Demonstration Project, pending receipt of the May revision of expenditures.

Chapter 522, Statutes of 1984, authorized the transfer of the WIN program from the EDD to the DSS. The budget proposes $2,853,000 in the specialized Family and Children Services program to fund new county workload which will result from this transfer. The new workload includes assessing and registering potential WIN clients. Due to uncertainties regarding the adequacy of the funds budgeted for county WIN activities (which we discuss in our analysis of the EDD budget—Item 5100-001-001), we withhold recommendation on the $2.9 million budgeted for county WIN workload, pending receipt of the May revision of expenditures. The department indicates it will present a revised WIN funding proposal at that time.

ADOPTIONS PROGRAMS

The Department of Social Services (DSS) administers a statewide program of adoption services. The program provides adoption services to parents who wish to place children for adoption and to people who wish to adopt children. Adoption services are provided through three state district offices, 28 county adoption agencies, and a variety of private agencies.

There are two components to the Adoptions program: (1) the Relinguishment Adoption program, which provides adoption services to children in foster care and (2) the Independent Adoptions programs, which provides adoption services to birth parents and adoptive parents when both agree on placement and do not need the extensive assistance of an adoption agency. A third Adoptions program—the Intercountry Adoptions program, which placed children from foreign countries for adoption in the United States—was eliminated, effective January 1, 1984, by Ch 1116/84.

The Adoptions program is supported primarily from the General Fund. The General Fund pays for the cost of case work activities provided by state and county agencies, and reimburses private adoption agencies for placing in homes those children who are hard to place due to their physical, mental, or emotional handicaps or other factors.

Budget Proposal

The budget proposes total spending of $32,206,000 for the two adoptions programs in 1985–86. This is an increase of $229,000, or 1 percent, over estimated expenditures in 1984–85. Of the amount proposed for 1985–86, $4,268,000 is budgeted in Item 5180-001-001 for the department's cost of administering the Adoptions programs. The budget, however, does not include any funds for the department to provide direct adoption services.

SOCIAL SERVICES PROGRAMS—Continued

This is because the budget assumes enactment of legislation that would transfer from the department to the counties the responsibility for providing direct adoption services.

The remaining amount of funds proposed in the budget—$27,938,000—is to reimburse counties and private agencies for adoption services (Item 5180-151-001). These funds would be used to reimburse (1) county adoption agencies ($27,786,000) and (2) private adoption agencies ($152,000) for relinquishment and independent adoption services.

The 1985–86 funding level for direct adoption services represents an increase of $3,095,000, or 13 percent, over estimated expenditures in 1984–85. This increase is the result of the following major changes:

- A reduction of $4,958,000 reflecting a substantial reduction in the adoptions backlog. In the current year, counties are spending $5,182,000 to provide adoption services to children who were identified as potentially adoptable as a result of the adoption assessment reviews required by Ch 978/82 (SB 14). The department estimates that, in the budget year, county agencies will need to spend $224,000 to provide adoption services to the children who remain in this "backlog." Thus, the amount needed to provide services to children in the adoptions backlog in 1985–86 will be $4,958,000 less than was needed in 1984–85.
- An increase of $2,455,000 reflecting the transfer from the state to the counties of responsibility for direct adoption services. (The department's support budget proposes a reduction of $2,530,000 and the elimination of 73 positions as a result of this proposed transfer.)
- An increase of $4,846,000 due to the removal of the prior-year limitations on state participation in county-granted COLAs.
- An increase of $895,000 to pay for a 4 percent COLA proposed for 1985–86.

We recommend approval of the reduction in funds ($4,958,000) to handle the adoptions backlog. We discuss the other proposed changes below.

Transfer of Adoption Services from the State to Counties

We recommend a reduction of $2,553,000 ($2,455,000 from this item and $98,000 from Item 5180-181-001—the COLA item) and an augmentation of $2,530,000 in Item 5180-001-001—departmental support—to restore funding for state staff needed to provide adoption services in the counties currently serviced by the state's district offices.

The budget proposes to transfer the responsibility for providing direct relinquishment and independent adoption services from the state district offices to those counties that currently are being served by those offices. This proposal assumes enactment of legislation, effective July 1, 1985, which will require *all* counties to provide relinquishment and independent adoption services.

Under current law, individual counties may choose either to provide their own adoption services or to have the state provide these services. A number of counties have exercised the option to provide these adoption services, while other counties rely on the state to provide the services. The effect of the department's proposal is to require (1) 28 counties to provide relinquishment and independent adoption services, beginning July 1, 1985, and (2) 22 counties to provide independent adoption services, beginning July 1, 1985 (8 counties currently provide their own independent adoption services).

The budget includes $2,553,000 to reimburse the counties for the costs of providing these services ($2,455,000 proposed under this item and $98,000 proposed under Item 5180-181-001).

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

- ***The Proposal is Underfunded.*** The department estimates that its proposal will result in the counties needing approximately 54 social worker positions to provide the required adoption services. Based on information provided by the department, we estimate that it would cost the affected counties $2,767,000 to fund the 54 positions. This is $214,000 *more* than the amount proposed in the budget ($2,767,000 – $2,553,000 = $214,000).
- ***The Proposal Would Increase Program Costs.*** The budget proposes to reduce $2,530,000 from Item 5180-001-001 in order to reflect the savings associated with the elimination of the state staff who currently provide adoption services. As we have already noted, the cost of fully funding the required county positions is $2,767,000. Thus, the transfer proposal would result in a net *increase* in the costs of the Adoptions program amounting to $237,000 ($2,767,000 – $2,530,000 = $237,000), or 9.4 percent. The department states that one of the objectives of its transfer proposal is to provide adoption services "in the most efficient manner possible." It is difficult to understand how the proposal can result in more efficient provision of services when it would result in *the same level of service being provided at an increased cost.*
- ***The Proposal Would Result in Fewer Children Being Adopted.*** In a report entitled *Public Adoption Efficiency Report,* issued in January 1985, the department concludes that adoption agencies in small counties "invariably will be among the least efficient in adoptive placements." This is because agencies with smaller adoption caseloads are not able to take advantage of the economies of scale available to the larger agencies. This finding is important in the present context because the 28 counties currently served by the state are counties with small caseloads.

  In the same report, the department advises that the state district offices are more efficient, in terms of the number of placements per adoption workers, than the *average* county agency. Based on this finding, we conclude that under the department's proposal, the 28 small counties affected by the proposal would be able to place fewer children in adoptions than are currently being placed by the state district offices.
- ***The Proposal Would Result in Delays for Children Awaiting Adoptions.*** The department's proposal does not provide for a transition period during which time the Adoptions program would be transferred from the state to the counties. Specifically, the department assumes that the counties will begin providing services on July 1, 1985—the day after the state positions that currently provide these services are eliminated. It seems unlikely that the counties will be able to fully implement the Adoptions program on July 1, 1985. Counties would have to recruit and train new staff, acquire office space and equipment, and set up county control and operating systems by July 1, 1985.

  We think it is reasonable to assume that these activities would require at least three months to complete and that some counties

SOCIAL SERVICES PROGRAMS—Continued

could take up to a full year to bring their new adoption programs completely on line. For example, the department states in its adoptions report that it generally takes 18 months for *a skilled social worker* to become proficient at providing adoption services. We estimate that for every month that county adoption services are not fully operational, 19 children would be added to the current backlog of 200 children awaiting adoption.

- ***Proposal Reduces the Legislature's Ability to Control the Costs of the Adoptions Program in the Long-Run.*** Currently, the Legislature controls the costs of the Adoptions program through its action on the annual Budget Act. That is, the Budget Act limits the amount of state funds that will be available to those counties that currently provide adoption services. These counties may spend more to provide adoption services than the amount of funds provided by the state, but if they do so, they pay for the additional costs from county funds. Thus, counties have a fiscal incentive to control program costs within the amounts appropriated in the Budget Act.

  The department's proposal would eliminate this fiscal incentive, thereby diminishing the Legislature's ability to control costs in the long-run. This is because the department's proposal assumes the enactment of legislation *requiring* all counties to provide relinquishment and independent adoption services. This kind of statutory change would, in our judgment, create a state-mandated local program, as defined under Article XIIIB of the California Constitution. This is because it would (1) require some counties to provide services that they do not currently provide and (2) require other counties to provide services that they currently provide at their own option. It is exceedingly difficult for the Legislature to limit costs under a mandated local program because the counties decide how services are to be delivered, and are not faced with any fiscal incentive to minimize the cost of providing these services.

For these reasons, we recommend that the Legislature reject the proposed transfer of the Adoptions program from the state to the counties. Specifically, we recommend (1) a reduction of $2,553,000 ($2,455,000 from this item and $98,000 from Item 5180-181-001—the COLA item) and (2) an augmentation of $2,530,000 in Item 5180-001-001—departmental support. These changes would restore funding for the state staff needed to provide adoption services in those counties currently serviced by the department's district offices.

Treatment of Adoption COLAs Inconsistent with Proposals for AFDC, Food Stamp, and Medi-Cal Administration COLAs

We recommend that the budget proposal to remove limitations on the state's share of the costs associated with COLAs granted by the counties in prior years be approved. We further recommend a reduction of $314,000 in the amount requested from the General Fund for cost-of-living increases (Item 5180-181-001) in order to provide a 2.4 percent "catch-up" COLA, which is consistent with the administration's proposed COLA for other county-administered welfare programs.

In our analysis of the budget request for county welfare administration (Item 5180-141-001), we recommend approval of the administration's proposal to (1) remove prior-year limits on state participation in the costs of county-granted COLAs and (2) establish a policy of catch-up COLAs for the AFDC, Food Stamp, and Medi-Cal administration programs. We base this recommendation on our conclusion that these policies are consistent with the Legislature's intent in enacting Chapter 1068, Statutes of 1984.

The budget proposes an increase of $4,846,000 ($4,839,000 from the General Fund and $7,000 in federal funds) to pay for the 1985–86 costs of removing the limitations on state participation in the costs of prior-year COLAs granted by the counties in connection with the Adoptions program. The budget also proposes $895,000 ($894,000 from the General Fund and $1,000 in federal funds) for a 4 percent COLA in 1985–86.

We believe removal of the limitation on state funding for prior-year COLAs granted by the counties would be in conformance with the Legislature's intent in enacting Ch 1068/4. We therefore recommend that this part of the budget proposal be approved.

The 4 percent COLA proposed for the Adoptions program in 1985–86, however, is inconsistent with the catch-up COLA policy proposed by the administration for the other county-administered welfare programs. The administration is proposing a 2.4 percent COLA for these other programs. This catch-up COLA reflects the difference between (1) the COLA granted to these programs by the 1984 Budget Act (3 percent) and (2) the administration's current estimate of the *actual* COLAs granted by the counties to their employees during 1984–85 (5.4 percent). We know of no reason to use different assumptions in establishing the COLA for the Adoptions program than those that were used for the other county-administered welfare programs. Accordingly, in order to make the COLA for the Adoptions program consistent with the catch-up COLAs proposed for other county administrative programs, we recommend a reduction of $314,000 from the amount proposed for the adoptions COLA under Item 5180-181-001. This reduction reflects (1) an increase of $172,000 to correct for a technical error in calculating the cost of the 4 percent COLA proposed by the department and (2) a reduction of $486,000 to reflect the savings associated with reducing the COLA to 2.4 percent.

DSS's Report on Public Adoption Agencies Warrants Praise

We recommend that the Legislature adopt supplemental report language requiring the DSS to submit a report, by December 1, 1985, that (1) establishes goals for the number of children to be adopted and (2) makes recommendations for improving the relinquishment adoptions program.

The 1984 Budget Act required the DSS to submit a report, by December 1, 1984, on the performance of public adoption agencies in California. The department's report identifies several potential reasons for the wide variations among counties with respect to the number of successful relinquishment adoptions per social worker. The report also establishes goals, as required by the Budget Act for the number of relinquishment adoption placements to be made during 1984–85.

The report identifies two factors that *clearly* affect the number of adoptions made by the average worker in a county:

- Many counties were over-reporting the amount of social worker time that is attributable to the Adoptions program. As a result, these counties appeared to be less efficient than they actually were. The department has initiated steps to correct this problem.
- Smaller counties generally are less efficient in arranging adoption services due to their inability to take advantage of efficiencies that result from "economies of scale."

SOCIAL SERVICES PROGRAMS—Continued

In addition, the report identifies the following factors that may be significant in affecting the adoption rate in *specific* counties.

- Some counties may not spend enough time assessing a child's adoptability prior to attempting to place the child in adoption, thereby reducing the chances of the child being adopted.
- Some counties may be diverting resources intended for relinquishment adoptions to independent adoptions.
- Some counties may not devote enough resources to recruiting potential adoptive parents.
- Some county adoption agencies seem to have trouble getting prompt legal service from the county counsel's office or in setting timely court dates for children awaiting adoption.
- Some counties may be using limited staff time to conduct home studies of potential adoptive parents who want to adopt the kinds of children not generally available in the county (for example, healthy white infants). Such counties could make better use of their staff by providing services to hard-to-place children and on recruiting parents willing to adopt such children.

Based on our review of the department's report, we conclude that the department did an exceptionally thorough and thoughtful job of responding to the Legislature's concerns. The department advises that, with the voluntary cooperation of the counties, it is working to correct many of the problems identified in the report.

We believe that this report is a step toward improving the operation of the Relinquishment Adoptions program. We also believe that the department should continue to improve both the efficiency of the Relinquishment Adoptions program and the ability of the program to serve children awaiting adoption. The department can do this by continuing to review the program's performance and to set goals for the number of children to be adopted. We therefore recommend the adoption of the following supplemental report language, which would require the department to submit a report comparable to this year's report that (1) establishes goals for the number of children to be adopted and (2) makes recommendations for improving the performance of the Relinquishment Adoptions program:

"The department shall submit a report to the Legislature, by December 1, 1985, that (1) establishes goals for State and county adoption agencies' performance during 1985–86 in terms of the number of adoptions per social worker FTE and (2) provides the department's recommendations regarding how the Relinquishment program's performance can be improved."

Department of Social Services
COMMUNITY CARE LICENSING

Item 5180-161 from the General Fund and Federal Trust Fund — Budget p. HW 180

Requested 1985–86	$7,369,000 [a]
Estimated 1984–85	7,085,000
Actual 1983–84	7,514,000
Requested increase $284,000 (4.0 percent)	
Total recommended reduction	None

[a] Includes $284,000 in Item 5180-181-001 (c) to provide a 4.0 percent cost-of-living increase.

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-161-001—Community Care Licensing	General	$7,085,000
5180-161-890—Community Care Licensing	Federal	(2,788,000)
5180-181-001 (c)—Community Care Licensing COLA	General	284,000
5180-181-890—Community Care Licensing COLA	Federal	(111,000)
Total		$7,369,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Net Underfunding. Recommend that, prior to the budget hearings, the department report to the fiscal committees on how it proposes to meet its projected caseload level, given the proposed funding level. 984

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation for the state's cost of contracting with counties to license foster family homes and family day care homes, as well as other community care facilities. Funds for direct state licensing activities are proposed in Item 5180-001-001, departmental support.

Foster family homes are licensed to provide 24-hour residential care to children in foster care. In order to qualify for a license, the homes must be the residence of the foster parents and must provide services to no more than six children. Family day care homes are licensed to provide day care services for up to 12 children in the provider's own home.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes two appropriations totaling $7,369,000 from the General Fund to reimburse counties for licensing activities in 1985–86. This amount includes $284,000 proposed in Item 5180-181-001 to provide cost-of-living increases in 1985–86. The only funding change proposed for community care licensing in 1985–86 is a 4 percent cost-of-living increase.

COMMUNITY CARE LICENSING—Continued

ANALYSIS AND RECOMMENDATIONS

Licensing Activities are Underfunded

We recommend that, prior to the budget hearings, the department report to the fiscal committees on how it proposes to meet its projected caseloads, given the proposed funding level for community care licensing.

The Department of Social Services (DSS) projects that the counties will license 22,200 family day care (FDC) homes in 1985–86. This is an increase of 11.6 percent over the number of facilities licensed in 1984–85. The DSS also projects that in 1985–86, the counties will license 12,600 foster family homes (FFH), the same number licensed in 1984–85.

Our review of DSS' projection methodology indicates that the department's caseload estimates are appropriate. The budget, however, does not provide enough funds to support the department's caseload projections. Based on the department's own worker-to-caseload ratios for FDC and FFH, estimated costs per worker, and estimated caseload, the family day care licensing function appears to be underbudgeted by $568,000, while the foster family home licensing function appears to be overbudgeted by $105,000. *This results in a net underfunding of $463,000 in this item.* Given this apparent underfunding, we recommend that, prior to the budget hearings, the department report to the fiscal committees on how it proposes to handle the workload that would normally be associated with its projected caseloads.

Department of Social Services

COST-OF-LIVING ADJUSTMENTS

Item 5180-181 from the General Fund and Federal Trust Fund — Budget p. HW 174

Requested 1985–86	$216,170,000
Total recommended reduction	1,821,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-181-001—Cost-of-living adjustments	General	$216,170,000
5180-181-890—Cost-of-living adjustments	Federal	(121,441,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Budget Language Limiting COLAs. Recommend deletion of Budget Bill language which proposes to limit COLAs because the language would shift the decision on COLAs from the state to the federal government. — 987
2. ***Adoptions COLA. Reduce Item 5180-181-001(b) (General Fund) by $314,000.*** Recommend reduction in order to provide for the same 2.4 percent "catch-up" COLA proposed for other county welfare department-administered programs. — 988

3. ***Conforming Recommendations. Reduce Item 5180-181-001 by $1,507,000 and Item 5180-181-890 by $1,500,000.*** Recommend amount budgeted for cost-of living increases be reduced to reflect recommended reduction in funding for basic program costs, for a General Fund savings of $1,-507,000 and a federal fund savings of $1,500,000. 989

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation to provide cost-of-living adjustments (COLAs) to various welfare and social services programs.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes a General Fund appropriation of $216,170,000 to fund cost-of-living increases for various local assistance programs administered by the Department of Social Services (DSS). Table 1 shows the costs of the inflation adjustments proposed for each of these programs.

Table 1
Department of Social Services
Proposed Cost-of-Living Increases
General Fund
1985–86
(dollars in thousands)

Program (Proposed Cost-of-Living Adjustment)	*Proposed Baseline Funding*	*Cost-of-Living Increase*	*Percent Increase in Expenditures*	*Total Expenditures*
AFDC cash grants (5.3 percent)	$1,595,813	$87,333	5.5%	$1,683,146
SSI/SSP cash grants (5.3 percent) [a]	1,294,142	103,224	8.0	1,397,366
County Administration (2.4 percent)	127,222	3,052	2.4	130,274
Social Services (4 percent)	273,906	22,277	8.1	296,183
Other County Social Services	(179,394)	(7,858)	(4.4)	(187,252)
In-Home Supportive Services	(47,619)	(12,934)	(27.2)	(60,553)
Other Social Services	(46,893)	(1,485)	(3.2)	(48,378)
Community Care Licensing (4 percent)	7,085	284	4.0	7,369
Totals	$3,298,168	$216,170	6.6%	$3,514,338

[a] The SSI/SSP increase in maximum payments is effective January 1, 1986.

As Table 1 indicates, the proposed cost-of-living increases would increase General Fund expenditures for these programs during 1985–86 from $3.3 billion to $3.5 billion, an increase of 6.6 percent. The increase reflects proposed cost-of-living increases in public assistance programs ranging from 2.4 percent to 5.3 percent. Because of factors unique to individual programs, however, the percentage increase in *General Fund* expenditures may exceed the proposed COLA (expressed in percentage terms). For example:

- The percentage increase in SSI/SSP *expenditures* (8.0 percent) is greater than the percentage increase in *maximum* SSI/SSP grants (5.3 percent) because the COLA is given to recipients who are eligible for state payments (SSP), as well as to those who are eligible for both SSI and SSP payments.
- The percentage increase in social services *expenditures* (8.1 percent) is greater than the 4 percent COLA proposed in the budget because

Table 2
Department of Social Services
Proposed Cost-of-Living Increases
All Funds
1985–86
(dollars in thousands)

		Cost-of-Living Increases					
Program	*Base Program*	*General Fund*	*Federal Funds*	*County Funds*	*Total Cost-Of-Living Increase*	*Percent General Fund*	*Proposed Program*
AFDC cash grants	$3,554,953	$87,333	$97,695	$12,293	$197,321	44.3%	$3,752,274
SSI/SSP cash grants	2,528,897	103,224	339	—	103,563	99.7	2,632,460
County Administration	657,426	3,052	20,886	14,076	38,014	8.0	695,440
Refugee Cash Assistance	45,140	—	1,028	—	1,028	—	46,168
Social Services:	745,479	22,277	1,382	3,541	27,200	81.9	772,679
Other County Social Services	(283,585)	(7,858)	(1,381)	(2,104)	(11,343)	(69.3)	(294,928)
In-Home Supportive Services	(355,790)	(12,934)	(—)	(1,437)	(14,371)	(90.0)	(370,161)
Other Social Services	(106,104)	(1,485)	(1)	(—)	(1,486)	(99.9)	(107,590)
Community Care Licensing	9,873	284	111	—	395	71.9	10,268
Totals	$7,541,768	$216,170	$121,441	$29,910	$367,521	58.8%	$7,909,289

the federal government does not provide funds for COLA's to all federally funded social services programs. Thus, the state pays for a disproportionate share of the costs of providing COLAs for social services programs.

Table 2 shows that the budget proposes *total* expenditures of $7,909,289,-000 for welfare programs. This amount includes, $367,521,000 proposed for cost-of-living increases.

ANALYSIS AND RECOMMENDATIONS

COLAs for Public Assistance Recipients

State law requires that recipients of assistance under the SSI/SSP and AFDC programs as well as certain IHSS Recipients, receive an annual cost-of-living increase in their grants. The AFDC and IHSS increase is effective July 1, 1985, and the SSI/SSP increase is effective on January 1, 1986. Under existing law, the COLA required for these grants in 1985–86 is equal to the percentage change in the California Necessities Index (CNI) from December 1983 to December 1984.

The Department of Finance estimates that the COLA required by existing law in 1985–86 will be 5.3 percent. This would result in General Fund costs of $191,114,000 ($103,224,000 for the SSI/SSP program, $87,333,000 for the AFDC program and $557,000 for the IHSS program) in the budget year.

California Should Not Defer to the Congress Decisions on COLAs

We recommend that the Legislature delete Budget Bill language which proposes to limit statutory COLAs for SSI/SSP, AFDC, and IHSS grant recipients and Medi-Cal providers because the language would shift the decision on COLAs from the state to the federal government.

The budget proposes to provide a 5.3 percent COLA for AFDC, SSI/SSP, and certain IHSS grant recipients, as required by state law. The Budget Bill, however, also contains control language (Item 5180-181-001, Provision 2) which would restrict the use of General Fund monies for COLAs in the event that federal funds for such increases are reduced or eliminated. The control language reads as follows:

> "Notwithstanding any other provision of law, all statutorily mandated COLAs that are matched by federal funds shall be increased only to the level of the 1984–85 federal funds/General Fund ratio."

The same language is proposed for the "statutory" COLAs required under the Medi-Cal program. Current law requires that inpatient hospital services that are not provided under contracts, as well as drug ingredients, be reimbursed based on actual costs. Because these rate increases are provided automatically when the costs of the services increase, these provisions are often referred to as statutory COLAs. (Although the administration intended the language to apply to the statutory COLAs for the Medi-Cal program (Item 4260-101-001), the language incorrectly appears in the item which provides *discretionary* COLAs for the Medi-Cal program (Item 4260-106-001).)

The Department of Finance advises us that the purpose of the language is to limit state cost-of-living increases for the specified programs to whatever percentage increase is granted by the federal government, if any. For example, if the federal budget for federal fiscal year 1986 (FFY 86) does

COST-OF-LIVING ADJUSTMENTS—Continued

not allow the use of federal funds to pay for COLAs on AFDC and SSI/SSP grants, or increased reimbursement levels for Medi-Cal providers, then under the proposed language, California's grants and reimbursement rates would be maintained at the current-year level, as well. Presumably, this would result in a General Fund savings, to the extent that state funds budgeted for these COLAs were not needed.

Our analysis of the proposed Budget Bill language indicates that:

- ***The language would not accomplish the administration's objective of limiting COLAs to AFDC and IHSS recipients.*** Current law requires that grants to AFDC and certain IHSS recipients be increased annually based on the change in the CNI for the preceding calendar year. State law also makes the state and counties jointly liable for the nonfederal share of costs under the AFDC and IHSS programs. Thus, even if the federal government refused to provide any funds for AFDC or IHSS COLAs in FFY 86, the state and counties, together, would still be liable for the full COLA required by state law.

  The language proposed in the budget, however, *would reduce the state's liability for funding the COLA*, commensurate with the reduction in federal funds. Thus, the ultimate effect of the proposed budget control language would be to make the counties responsible for funding the full cost of statutory COLAs for the AFDC program in the event that federal funds are reduced. This could mean a cost shift to the counties of $185 million.
- ***The budget language is so ambiguous that it is virtually impossible to determine what the effect of the language would be.*** Specifically, the language is unclear as to whether the 1984–85 federal/state "funding ratio" is the funding ratio for the base program (which excludes the cost of the COLA) or the ratio for the COLA itself. The effect of the limit in some programs will vary significantly depending on which base is used to calculate the limit.

Even without these problems, however, the proposed language would not warrant approval by the Legislature. In essence, the language would shift from the state to the federal government the major policy decision of what COLAs should be provided to AFDC, SSI/SSP, and IHSS grant recipients (and what reimbursement rates to grant Medi-Cal providers).

In our judgment, the *Legislature* should decide the size of COLAs for California grant recipients, not the Congress and the President. It should do so based on (1) the *needs* of the grant recipients and providers and (2) the *availability of funds.*

While a reduction in federal funding might cause the Legislature to alter COLAs for grant recipients and providers, it should not dictate such an important policy change. For these reasons, we recommend deletion of Provision 2 in Item 5180-181-001 and Provision 2 of Item 4260-106-001.

Adoptions COLA Should Be Consistent with COLAs for Related Programs

We recommend that the amount requested for a COLA under the Adoptions Program be reduced by $314,000 to be consistent with the "catch-up" COLAs proposed for other county-administered welfare programs. (Reduce Item 5180-181-001(b) by $314,000.)

In our analysis of the Adoptions budget (Item 5180-151-001(d)), we recommend that the Legislature provide a 2.4 percent "catch-up" COLA for the Adoptions program, rather than the 4 percent COLA proposed in the budget. Approval of this recommendation would make the Adoptions COLA consistent with the "catch-up" COLAs proposed for the AFDC, Food Stamps, and Medi-Cal administration programs.

Effect of Other Recommendations on COLAs

We recommend that the amount budgeted for cost-of-living increases be reduced by $3,007,000 to reflect our recommended reductions in the baseline costs of various programs. (Reduce Item 5180-181-001 by $1,507,000 and Item 5180-181-890 by $1,500,000.)

In our analyses of the AFDC Payments for Children program (Item 5180-101-001), the County Administration Program (Item 5180-141-001), and Social Services programs (Item 5180-151-001), we recommend several reductions in *baseline* costs. Because the amounts requested in the budget for cost-of-living increases are based on percentage adjustments applied to baseline program costs, any reduction in program costs will reduce the dollar amount needed to fund the COLAs proposed in the budget.

We therefore recommend the following reductions:

- Reduce Item 5180-181-001 (d) by $1.3 million and Item 5180-181-890 by $1.5 million to reflect the reduced General Fund cost of COLAs for AFDC grants.
- Reduce Item 5180-181-001 (e) by $31,000 to reflect reduced General Fund costs for county administration of the Special Adults program.
- Reduce Item 5180-181-001 (b) by $176,000 to reflect reduced General Fund costs for (1) in-home supportive services ($78,000) and (2) county-administered Adoptions program which results from rejecting the department's proposal to transfer the responsibility for providing adoptions services to the counties now served by the department's district Adoptions offices ($98,000).

Health and Welfare Agency

CALIFORNIA HEALTH FACILITIES COMMISSION

Item 5190 from the California Health Facilities Commission Fund — Budget p. HW 187

Requested 1985–86	$1,935,000
Estimated 1984–85	4,092,000
Actual 1983–84	3,522,000
Requested decrease (excluding amount for salary increases) $2,157,000 (−52.7 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The California Health Facilities Commission (CHFC), established in 1972, collects patient and financial data from the 596 hospitals and 1,183 long-term care facilities in the state and summarizes the data in reports to government agencies and the public. The purpose of the commission's activities is to:

1. Encourage economy and efficiency in the provision of health care services.
2. Enable public agencies that purchase health care services to do so in an informed manner.

CALIFORNIA HEALTH FACILITIES COMMISSION—Continued

3. Encourage both public and private payors to establish fair and reasonable reimbursement rates for health care services.
4. Inform the public about cost, availability, and other aspects of health care services.

The commission's responsibilities also include establishing standards of effectiveness for each of the state's health service areas. Health systems agencies use these forecasts to develop area health plans.

During 1984–85, a total of 86.3 staff positions are authorized for the commission, in addition to 9 nonsalaried commissioners.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $1,935,000 from the CHFC Fund to support commission activities in 1985–86. This is a decrease of $2,157,000, or 53 percent, below estimated current-year expenditures. This reduction, however, does not take into account the cost of any salary and benefit increases that may be approved by the Legislature for the budget year.

The proposed decrease of $2,157,000 is due to the fact that statutory authorization for the commission and its functions expires on January 1, 1986.

Chapter 1326, Statutes of 1984, requires the Office of Statewide Health Planning and Development (OSHPD) to collect all health facilities data used by state agencies, effective January 1, 1986. Chapter 1326 also establishes the 11-member California Health Policy and Data Advisory Commission. The data collection responsibilities of the OSHPD and the functions of the California Health Policy and Data Advisory Commission are discussed in our analysis of the OSHPD (Item 4140).

Youth and Adult Correctional Agency
DEPARTMENT OF CORRECTIONS

Item 5240 from the General Fund and the Inmate Welfare Fund — Budget p. YAC 1

Requested 1985–86	$911,150,000
Estimated 1984–85	793,797,000
Actual 1983–84	604,191,000
Requested increase (excluding amount for salary increases) $117,353,000 (+14.8 percent)	
Total recommended reduction	15,911,000
Recommendation pending	82,503,000

1985–86 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5240-001-001—Department Operations	General	$879,310,000
5240-001-917—Inmate Welfare Fund	Revolving	13,632,000
5240-101-001—Local Assistance	General	18,208,000
5240-001-890—Department Operations	Federal	(208,000)
Reimbursements		(11,896,000)
Total		$911,150,000