Health and Welfare Agency

STATE COUNCIL ON DEVELOPMENTAL DISABILITIES AND AREA BOARDS ON DEVELOPMENTAL DISABILITIES

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

Requested 1986–87	$3,895,000
Estimated 1985–86	4,141,000
Actual 1984–85	3,951,000
Requested decrease $246,000 (−5.9 percent)	
Total recommended reduction	None

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4100-001-890—State Council on Developmental Disabilities	Federal	$3,895,000
—Support		(866,000)
—Community program development		(909,000)
—Allocation to area boards		(2,120,000)
4100-001-001—Area Boards on Developmental Disabilities	Reimbursements	—

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Conversion of Temporary-Help Funds. Recommend that request to use $25,000 in temporary-help funds for a new permanent clerical position be denied. 601

GENERAL PROGRAM STATEMENT

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

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

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

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $3,895,000 from federal funds for support of the state council and area boards in 1986–87. This is a reduction of $246,000, or 5.9 percent, below estimated current-year expenditures. This reduction, however, is somewhat misleading. During the current year, the state council and area boards carried forward certain 1984–85 federal funds on a one-time basis. These funds, which were used for community program development, may not be available in the budget year. If these funds are deducted from current-year expenditures, the level of funding proposed in the budget for 1986–87 is the same as the amount appropriated in the Budget Act for the current year.

Table 1 displays how federal funds are allocated to the state council, community development, and area boards in the past, current, and budget years.

Table 1
State Council and Area Boards
Budget Summary
Federal Funds
1984–85 through 1986–87
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	Actual 1984–85	Est. 1985–86	Prop. 1986–87	Actual 1984–85	Est. 1985–86	Prop. 1986–87	Percent Change from 1985–86
State council	10.4	12.6	12.6	$799	$831	$866	4.2%
Program development	—	—	—	1,298	1,278	909	−28.9
Area boards	37.7	37.5	37.5	1,854	2,032	2,120	4.3
Totals	48.1	50.1	50.1	$3,951	$4,141	$3,895	−5.9%

The budget proposes a total of 50.1 positions for these programs in 1986–87, consisting of 12.6 for the state council and 37.5 for the area boards. This represents no change from the current year.

The budget contains $83,000 to fund employee compensation increases for the state council and area boards in 1986–87, which caused a commensurate decrease in available program development funds. The budget does not include additional funding for merit salary adjustments or inflation adjustments to operating expenses and equipment. We estimate that the state council and area boards will have to absorb approximately $63,000 in such costs.

ANALYSIS AND RECOMMENDATIONS

Proposed New Position is Not Justified by Workload

We recommend that the Legislature reject the proposal to use temporary-help funds for a permanent clerical position because workload does not justify a permanent position at this time.

The budget proposes to fund a new clerical position, effective March 1, 1986. The money needed to support this position—$25,000—would come from the temporary-help blanket included in the base budget.

The state council maintains that it needs the additional position because (1) it has filled two vacant professional positions and (2) it has assumed additional reporting responsibilities.

Currently, three clerical positions support nine professional staff, including the executive director. Our analysis indicates that the request for an additional clerical position should not be approved for the following reasons:

- There is no numerical workload data to support the need for the requested position.
- The current ratio of one clerical to three professional positions is approximately average for agencies of this type.
- Part of the existing clerical workload is not ongoing. This is the workload associated with the preparation of a March 1986 report.

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

- Newly installed data processing equipment can be upgraded to increase efficiencies in office typing. Currently, material that is typed on three personal computers by professional staff must be retyped by clerical staff on a word processor. Integration of the personal computers and the word processing equipment should reduce clerical typing workload.

For these reasons, we recommend that the Legislature reject the proposed use of temporary-help funds for a permanent position. The state council should continue using temporary-help funds to meet peak workload requirements until office data processing equipment can be integrated so as to reduce typing workload.

Health and Welfare Agency

EMERGENCY MEDICAL SERVICES AUTHORITY

Item 4120 from the General Fund — Budget p. HW 4

Requested 1986–87	$1,377,000
Estimated 1985–86	1,608,000
Actual 1984–85	1,335,000
Requested decrease $231,000 (−14.4 percent)	
Total recommended increase	145,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4120-001-001—Support	General	$602,000
4120-001-890—Support	Federal	(178,000)
4120-101-001—Local assistance	General	754,000
4120-101-890—Local assistance	Federal	(1,685,000)
Reimbursements	—	21,000
Total		$1,377,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Disaster Preparedness Staff. Augment Item 4120-001-001 by $145,000.*** Recommend an augmentation of funds to restore three positions needed to maintain the state's ability to respond to a medical disaster. 603

GENERAL PROGRAM STATEMENT

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

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

The authority has 15.8 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $1,356,000 from the General Fund for support of the authority's programs in 1986–87. This is a decrease of $128,000, or 8.6 percent, below estimated current-year expenditures. The decrease results primarily from the expiration of three limited-term positions in the disaster medical services program.

The proposed appropriation from federal funds is $1,863,000, which is a decrease of $80,000, or 4.1 percent, below current-year expenditures. This decrease reflects the fact that $80,000 in federal funds that were carried over from 1984–85 to 1985–86 will not be available in the budget year. The authority indicates the decrease will affect primarily funds granted to local agencies for special projects.

The budget proposes to reduce the authority's staffing to 12.8 positions in 1986–87—a reduction of 3 positions.

The budget does not include additional funding for merit salary adjustments or inflation adjustments to operating expenses and equipment. We estimate that the department will have to absorb approximately $14,000 in such costs.

Table 1 shows positions, expenditures, and source of funds for the years 1984–85 through 1986–87.

Table 1
Emergency Medical Services Authority
Budget Summary
1984–85 through 1986–87
(dollars in thousands)

	Expenditures			Percent
Program	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Change from 1985–86*
Administration	$3,323	$3,551	$3,240	−8.8%
Funding source				
General Fund	*$1,325*	*$1,484*	*$1,356*	*−8.6%*
Federal Trust Fund	*1,988*	*1,943*	*1,863*	*−4.1*
Reimbursements	10	124	21	−83.1
Personnel-years	13.9	15.6	12.6	−19.2

ANALYSIS AND RECOMMENDATIONS

Disaster Medical Services Staff Discontinued

We recommend an augmentation of $145,000 General Fund and three positions needed to maintain the state's disaster preparedness.

The budget proposes to discontinue three limited-term disaster preparedness positions.

The Budget Act of 1984 appropriated $161,000 from the General Fund

EMERGENCY MEDICAL SERVICES AUTHORITY—Continued

to support three professional staff in the Disaster Medical Services Section of the authority. The three positions were to accelerate planning activities related to disasters involving mass casualties. Because the work plan submitted by the authority projected that most of the work would be completed in two years, the positions were established on a limited-term basis.

The authority's most recent work plan shows that the following activities would have been assigned to these three positions in 1986–87:

- Development of a disaster medical records system.
- Development of guidelines for volunteer disaster medical assistance teams.
- Participation in the northern California earthquake preparedness exercise.
- Updating and testing the on-line medical information and resource management system to be used in the event of a disaster.
- Development of a medical response plan for hazardous waste emergencies.
- Implementation and testing of the intercounty disaster medical services communications plan.
- Refining and testing strategies for citizen disaster preparedness and self-help capability.
- Developing and testing strategies for private-sector involvement in disaster medical planning.

The authority indicates that because the positions will not be extended, these activities will not be performed in 1986–87. Our review indicates that the reductions may significantly reduce California's ability to respond to a medical disaster. Consequently, we recommend an augmentation of $145,000 General Fund and three positions in order to improve disaster medical preparedness.

Long-Range Plan Has Not Been Received

The *Supplemental Report of the 1985 Budget Act* required the authority to submit to the Legislature by December 1, 1985, a long-term program assessment, setting forth the authority's goals over the next five years, projected General Fund and federal block grant funding needs, and an estimate of the staff necessary to accomplish the authority's goals. At the time this analysis was prepared (January 1986), the Legislature had not received the report.

Health and Welfare Agency

HEALTH AND WELFARE AGENCY DATA CENTER

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

Requested 1986–87	$42,384,000
Estimated 1985–86	34,449,000
Actual 1984–85	32,912,000
Requested increase $7,935,000 (+23 percent)	
Total recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Reconciliation of Health and Welfare Data Center (HWDC) Budget Proposal. Recommend that, prior to budget hearings, the Department of Finance reconcile the budget proposal for the HWDC with costs identified in the budget proposals of the Data Center's user departments. 606
2. Workload Estimate. Recommend that, prior to budget hearings, HWDC advise the Legislature how additional user department projects will affect the Data Center's workload. 607

GENERAL PROGRAM STATEMENT

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

The HWDC has 212.3 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $42,384,000 from the Health and Welfare Agency Data Center Revolving Fund to support the Data Center's operations in 1986–87. This is an increase of $7,935,000, or 23 percent, above estimated current-year expenditures.

The budget does not include additional funding for Merit Salary Adjustments or inflation adjustments to Operating Expenses and Equipment. We estimate that the Data Center will have to absorb approximately $1.2 million in such costs.

Table 1 identifies the significant changes in the center's expenditures proposed for 1986–87.

HEALTH AND WELFARE AGENCY DATA CENTER—Continued

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

		Data Center Revolving Fund
1985–86 expenditures (revised)		$34,449
Proposed changes:		
1. Cost adjustments		
a. Full-year cost adjustment	$1,049	
b. Salary and benefit adjustment	447	
		1,496
2. Program adjustments		
a. Increase user program cost	$3,681	
b. Increase dedicated equipment	2,893	
c. Data center efficiencies	−277	
d. Increase teleprocessing support	87	
e. Equipment for new CALSTARS users	55	
		6,439
1986–87 expenditures (proposed)		$42,384
Change from 1985–86:		
Amount		$7,935
Percent		23%

ANALYSIS AND RECOMMENDATIONS

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

1. A decrease of $277,000 in personal services resulting from departmental efficiencies.
2. A decrease of $9,000 in operating expenses and equipment reflecting the redirection of funds from HWDC to the Department of Mental Health (DMH) for an office automation project. (This amount is included within the "User Program Cost" in Table 1.)
3. An increase of $55,000 in communication and data processing costs to accommodate new users of the CALSTARS accounting system.
4. An increase of $30,000 in operating and equipment costs to provide support to the Department of Health Services for an occupational hazard surveillance data system. (This amount is included within the "User Program Cost" in Table 1.)

HWDC's Budget Is Not Consistent With the Budgets of User Departments

We recommend that, prior to budget hearings, the Department of Finance reconcile the budget proposal for the HWDC with the budget proposals of the center's user departments.

The Data Center is funded solely through reimbursements from departments that receive services from the center. Thus, the Data Center's budget should be equal to the expenditures that have been earmarked for it by the user departments.

We have reviewed the budget proposals submitted by the Data Center as justification for the new services that it intends to provide to some of its user departments. We have compared these proposals with information provided to us by the user departments themselves. We estimate that there is a discrepancy of approximately $436,000 between the Data Center's proposed budget and the funds identified by the user departments for the center. The Department of Finance acknowledges this discrepancy and indicates that it is working to reconcile the differences. We recommend that, prior to budget hearings, the Department of Finance reconcile the budget proposal of the HWDC with the budget proposals of its user departments and report its conclusions to the fiscal committees.

No Allowance Made for Potential Increased Workload

We recommend that, prior to budget hearings, the HWDC advise the Legislature how the increased demand for services from the user departments will affect its workload and staffing requirements.

The HWDC has advised us that several departments have submitted budget proposals which understate the cost and staffing impact of the demands that they will be placing on the Data Center. These proposals include the following:

- The Department of Health Services (DHS) is requesting the Data Center to assist in modifying the Los Angeles Medi-Cal Eligibility Data System.
- The DHS is also requesting the Data Center to provide assistance in expanding the central data base for the Statewide Automated Welfare System.
- The Employment Development Department is requesting the Data Center to provide support for expanding its Tax Accounting System.

Although the Data Center has indicated that it anticipates a need for increased personnel related to these budget proposals, it does not have an estimate of the additional number of staff or the amount of funds needed to cover the increased workload. Because the potential need for additional staff will result in additional costs to the Data Center, we recommend that, prior to budget hearings, the Data Center provide the Legislature with an estimate of the funds and staff needed to accommodate fully the increased workload identified by the user departments.

Legislatively Required Reports

The *Supplemental Report of the 1985 Budget Act* required the Health and Welfare Agency Data Center to report to the Legislature by January 1, 1986, on the use of contracts to perform services formerly performed by temporary state staff. The Data Center has submitted the report and we have reviewed it. The report contains information on (1) the cost of contractual services as compared to temporary state staff and (2) the quality and efficiency with which the contract staff are providing these services. The report concluded that the contract amount of $2,879 for specified services was 23 percent less than it would have cost to use temporary state staff. The report also concluded that the work was done efficiently and according to contract specifications.

Health and Welfare Agency

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

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

Requested 1986–87	$20,196,000
Estimated 1985–86	23,628,000
Actual 1984–85	16,401,000
Requested decrease $3,432,000 (−14.5 percent)	
Total recommended reduction	71,600

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4140-001-001—Support	General	$1,037,000
4140-001-121—Support	Hospital Building Account, Architecture Public Building	9,693,000
4140-001-143—Support	California Health Data and Planning	5,627,000
4140-001-518—Support	Health Facilities Construction Loan Insurance	693,000
4140-001-890—Support	Federal	(1,570,000)
4140-101-001—Local assistance	General	2,880,000
Reimbursements	—	266,000
Total		$20,196,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Technical Budgeting Issue. Reduce Item 4140-001-143 by $71,600.*** Recommend the reduction to reflect the actual savings resulting from the elimination of the Certificate-of-Need program. 611
2. Seismic Safety Workload. Withhold recommendation pending receipt and review of additional information. Further recommend that the office (1) submit its overdue report on seismic safety program workload, (2) explain why the mandated report has not been submitted, and (3) submit a staffing proposal adequate to meet 1986–87 workload projections. 612

GENERAL PROGRAM STATEMENT

The Office of Statewide Health Planning and Development (OSHPD) administers five major programs:

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

2. The *Certificate-of-Need Division* administers the state's certificate-of-need law (Ch 854/76), which requires state approval of major capital outlay projects proposed by health facilities. The office will cease to perform this activity January 1, 1987, pursuant to Ch 1745/84 (SB 2061).

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

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

5. The *Health Facilities Data Division* is responsible for collecting health cost and utilization data from health facilities. Chapter 1326, Statutes of 1984, shifted responsibility for collecting data from the California Health Facilities Commission (CHFC) and the Department of Health Services to the office, effective January 1, 1986.

The office is authorized 253.6 positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $3,917,000 from the General Fund to support the Office of Statewide Health Planning and Development in 1986–87. This is a decrease of $918,000, or 19 percent, below estimated current-year General Fund expenditures.

This decrease primarily reflects the deletion of one-time funds available in the current year—$777,000 carried over from 1984–85 for the Song-Brown Family Physician Training program and $200,000 for hospital assistance. When these one-time funds are deducted from current-year expenditures, the level of funding proposed for OSHPD's ongoing programs in 1986–87 represents an increase of $59,000, or 1.2 percent, above current-year expenditures.

Expenditures for support of the office from all funds are proposed at $21,766,000 in 1986–87. This is a decrease of $3,351,000, or 13 percent, below estimated current-year expenditures. Table 1 displays the office's personnel-years, program expenditures, and funding sources for the prior, current, and budget years.

Table 1
Office of Statewide Health Planning and Development
Budget Summary
1984–85 through 1986–87
(dollars in thousands)

	Personnel-Years			*Expenditures*			
Program	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
Health planning	24.7	29.3	17.6	$1,829	$2,508	$2,070	−17.5%
Certificate of need	21.8	15.8	4.3	1,547	1,630	892	−45.3
Health professions development	25.4	12.8	12.8	4,433	4,728	4,005	−15.3
Facilities development and financing	71.8	104.7	88.5	9,897	13,570	10,386	−23.5
Health facilities data	—	35	61.1	—	2,143	4,060	89.5
Other	39.6	41.8	40.1	322	538	353	−34.4
Totals	183.3	239.4	224.4	$18,028	$25,117	$21,766	−13.3%
Funding Source							
General Fund				*$3,985*	*$4,835*	*$3,917*	*−19.0%*
Hospital Building Account, Architecture Public Building Fund				*9,185*	*12,899*	*9,693*	*−24.9*
California Health Data and Planning Fund				—	—	*5,627*	—
Health Facilities Construction Loan Insurance Fund				*662*	*671*	*693*	*3.3*
Federal funds				*1,627*	*1,489*	*1,570*	*5.4*
Reimbursements				*2,596*	*5,223*	*266*	*−94.9*

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

The decrease in total expenditures from all sources also is due to the presence of certain one-time expenditures in the current-year total. These one-time expenditures include (1) a $777,000 carry-over for the Song-Brown Family Physician Training program, (2) $1,501,000 for expiring limited-term positions, and (3) a $3,496,000 deficiency appropriation for the seismic safety program. The corresponding reductions in budget-year spending are partially offset by (1) an increase of $1,645,000 to fund the full-year cost of CHFC staff transferred to the office and (2) an increase of $1,297,000 for the conversion of 27 limited-term seismic safety program positions to permanent positions. If both the one-time expenditures and the proposed program changes are deducted from the totals, the proposed budget is $519,000, or 2.1 percent, below estimated ongoing current-year expenditures.

Table 2 identifies the major budget changes proposed for 1986–87.

Table 2
Office of Statewide Health Planning and Development
Proposed 1986–87 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1985–86 expenditures (Budget Act)	$4,026	$20,320
Baseline adjustments, 1985–86:		
1. Employee compensation increase	32	524
2. Carry-over appropriation for Song-Brown Family Physician Training program	777	777
3. Deficiency appropriation for seismic safety program	—	3,496
1985–86 expenditures (revised)	$4,835	$25,117
Baseline adjustments:		
1. Employee compensation increase	$27	$435
2. Merit salary adjustment	—	—
3. Inflation adjustment for operating expenses and equipment	—	—
4. Pro-rata adjustment	—	456
5. SWCAP adjustment	—	−38
6. Overhead adjustment	−16	—
7. Expiring limited-term positions	−2	−1,501
8. One-time cost reductions:		
a. Hospital assistance	−200	−200
b. CHFC consolidation costs	—	−420
c. One-time contracts	—	−156
9. Full-year cost of CHFC	—	1,645
10. Elimination of carry-over for family physician training program	−777	−777
11. Deficiency appropriation for seismic safety program	—	−3,496
Program change proposals:		
1. Administrative support for Health and Welfare Agency	—	105
2. Implementation of Ch 832/85	50	50
3. Elimination of Certificate-of-Need program	—	−706
4. Reduction of two clerical positions	—	−45
5. Establishment of 27 permanent seismic safety positions	—	1,297
1986–87 expenditures (proposed)	$3,917	$21,766
Change from 1985–86 (revised)		
Amount	−$918	−$3,351
Percent	−19.0%	−13.3%

The budget proposes a total of 224.4 personnel-years for the office in 1986–87. This is a decrease of 15 personnel-years from the current-year level. The decrease primarily reflects the sunset of the Certificate-of-Need program, the termination on June 30, 1986, of 32 limited-term positions added administratively for the seismic safety program in the current year, and workload consolidation resulting from transfer of the California Health Facilities Commission staff to the office.

The budget does not include additional funding for merit salary adjustments or inflation adjustments to operating expenses and equipment. We estimate that the office will have to absorb approximately $384,000 in such costs.

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the following significant funding and staffing changes proposed for 1986–87 that are not discussed elsewhere in this analysis:

- An increase of four positions and $105,000 in reimbursements to continue providing support services to the Health and Welfare Agency.
- A reduction of two clerical positions, for a savings of $45,000 in reimbursements, to eliminate duplication created by the transfer to the office of functions and staff from the California Health Facilities Commission, pursuant to Ch 1326/84 (SB 181).
- A reduction of 10.1 temporary-help positions and an increase of $104,000 for a contract with California State University, which will provide student help to process peak workload consisting of technical reviews of financial, statistical, and utilization reports submitted by health facilities.
- A $50,000 General Fund augmentation to implement the Health Manpower Education program, pursuant to Ch 832/85. This measure directed the office to establish a health manpower education contract fund for health promotion and health risk education projects, and to seek an appropriation ranging from $40,000 to $80,000 in 1986–87.

Savings Underestimated

We recommend that the Legislature reduce by $71,600 reimbursements to the office in order to reflect actual program savings that result from elimination of the Certificate-of-Need program.

The budget proposes the elimination of 20.7 positions, for a savings of $706,000 in reimbursements, to reflect Ch 1745/84 (SB 2061), which eliminates the state's Certificate-of-Need (CON) program, effective January 1, 1987. The reimbursements represent fees paid by the facilities inspected under the CON program.

Our analysis indicates the office has underbudgeted the savings from eliminating these positions. The $706,000 assumes that all positions currently are filled at the first step of the salary range. In order to avoid overbudgeting, the savings should be calculated using the same salary levels used when the positions were initially budgeted.

Therefore, we recommend that the Legislature reduce reimbursements by $71,600 in order to reflect the actual savings resulting from the elimination of the CON program.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

Proposed Seismic Safety Staffing Cannot Accomplish Mission

We withhold recommendation on the seismic safety budget pending receipt and review of additional information. We further recommend that prior to budget hearings, the office (1) submit an overdue report on its seismic safety program workload for 1986–87, (2) explain why the mandated workload evaluation was not completed on time, and (3) provide the Legislature with staffing and funding recommendations that are adequate for projected 1986–87 workload.

The budget proposes to make permanent 27 limited-term positions that are due to expire June 30, 1986, at a cost of $1,297,000 to the Hospital Building Account, Architecture Public Building Fund. The proposal would *increase,* from 57 to 84, the number of *permanent* positions in the seismic safety program. The budget would, however, *reduce* the *total* number of positions available to the seismic safety program from 116 to 84. This is because the budget does *not* propose the continuation of 32 additional limited-term positions added in January 1986.

In addition, the budget document (Health and Welfare Section page 10, line 60) states:

"The Office of Statewide Health Planning and Development with the assistance of a private consultant is currently reviewing the ongoing purpose and associated staffing needs of its hospital seismic safety activities. Pursuant to this review, legislative or other program changes may be proposed as the budget is being reviewed by the Legislature."

The *Supplemental Report of the 1985 Budget Act* required the office to submit to the fiscal committees and the Joint Legislative Budget Committee by December 15, 1985, an evaluation of seismic safety program workload. At the time this analysis was written, the evaluation had not been submitted. Without this evaluation, the Legislature does not have an adequate basis for projecting the seismic safety program's workload and staffing needs for 1986–87. Our preliminary review of the workload backlog and a consultant's study completed in October 1985, however, strongly suggests that the proposed staffing level is inadequate.

Background. Chapter 303, Statutes of 1982, designated the office as the state agency responsible for enforcing hospital and health facility building standards. The measure preempted local agency enforcement of hospital construction standards and required the state to assume all plan reviews, inspections, and administrative duties from local entities.

There is a significant backlog in the office's seismic safety program, and our analysis indicates that seismic safety workload will continue to increase.

Consultant's Study. The office initiated a consultant study of workload in the seismic safety program in response to 1985 supplemental report language. The consultant's study estimates that there may be as many as 10,000 hours of backlogged work that must be cleared before plan review times will decrease to more acceptable levels.

We have reviewed the consultant's study and found its workload estimates and recommendations to be generally sound.

Current-Year Augmentation. The OSHPD currently expects workload, as measured by the value of seismic safety projects, to reach $1.2 billion in 1985–86. This is 50 percent greater than previously estimated. This growth in workload led the Department of Finance to add 32 new limited-term positions, as well as overtime and temporary-help funds, to the OSHPD budget in the current year. On December 27, 1985, the Director of Finance notified the Legislature that using the authority granted by Section 27 of the 1985 Budget Act, he had authorized the office to expend on a deficiency basis $3,496,322 from the Hospital Building Account, Architecture Public Building Fund to finance these additional resources. The Director justified the augmentation on the basis that the 1985 Budget Act does not adequately provide for the increases in the seismic safety program workload. Table 3 shows the elements of the augmentation.

Table 3
Seismic Safety Program
1985-86 Augmentation

32 new limited-term positions	$740,522
Overtime	55,500
Temporary help	107,500
Services including fees payable to State Architect and State Fire Marshal	2,592,800
Total	$3,496,322

The fees payable to the State Architect and State Fire Marshal also are directly tied to workload increases. Both the State Architect and State Fire Marshal are reimbursed on the basis of a fixed percent of the value of construction projects that are reviewed.

Governor's Budget Underestimates 1986-87 Staffing Requirements. The OSHPD anticipates that the value of seismic safety projects in 1986-87 will be $1.27 billion—slightly above the current-year level. The budget for 1986-87 does not contain adequate staff resources to handle this workload. Nor does the budget provide adequate funding for the services of the State Architect or the State Fire Marshal.

The budget proposes to make permanent 27 limited-term positions that the Legislature authorized in the Budget Act of 1985. The budget, however, would allow to expire the 32 additional limited-term positions that were authorized mid-way through the current year by the Department of Finance.

There is no question that the 27 limited-term positions should be made permanent. The issue facing the Legislature is whether the 32 other limited-term positions will still be needed in the budget year.

As Table 4 shows, workload in 1986-87 is projected to increase by an additional 8.8 percent over the 50 percent unanticipated workload growth for 1985-86. It was this unanticipated increase that prompted the Director of Finance to add the 32 temporary positions in the current year. Now, with workload expected to be greater still, the administration proposes to let these positions expire.

Table 5 shows that the consultant study cited earlier justifies an even larger staffing increase than the temporary increase authorized by the Director of Finance for the last six months of 1985-86. This increase added 19 review and inspection positions and 13 clerical and other support positions. The consultant study indicates the need for an additional 4 review and inspection positions but does not address the need for additional clerical or other support positions.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

Table 4
Seismic Safety Program
Review and Inspection Workload Projections
1985–86 to 1986–87

Project Work Categories	*Est. 1985–86*	*Projected 1986–87*	*Percent Change from 1985–86*
New facilities: structural changes			
Large projects	765	810	5.9%
Medium projects	1,500	1,625	8.3
Small projects	737	804	9.1
New facilities: no structural changes	2,860	2,926	2.3
Existing facility alterations	1,565	1,918	22.6
Other facility alterations	45	45	—
Equipment anchorage pre-approvals	10	15	50.0
Total workload	7,482	8,143	8.8%

Derived from October 1985 consultant study.

Table 5
Seismic Safety Positions
Comparison of Actual 1985–86 Augmentation to Consultant's Findings

	Architects	*Mechanical Engineers*	*Electrical Engineers*	*Structural Engineers*	*Construction Supervisors*	*Totals*
Actual augmentation	2	2	1	10	4	19
Consultant's findings	4	4	1	8	6	23
Difference	2	2	0	(2)	2	4

The consultant estimates that more than 139,000 hours of plan review and state inspection staff time will be required in 1986–87 to process incoming seismic safety program workload. Table 6 displays these projections. Table 6 also shows that a total of 91 review and inspection positions would be required to process the projected workload. The budget currently authorizes 63 review and inspection positions—*28 fewer than workload projections justify.* Furthermore, the staffing requirements shown in Table 6 do not include any additional clerical or management personnel, any staff to process backlog carried over from 1985–86, or any allowance for hiring lags or for exceptionally large or complicated projects.

Table 6

Seismic Safety Program

Workload Hours and Staffing Projections

1986–87

	Architects	Mech. Eng.	Elec. Eng.	Struc. Eng.	Const. Sup. II	Total
A. Hours of workload						
Total person-hours required	33,140	16,318	10,134	31,624	48,296	139,782
B. Position requirements						
Person-years required @ 1,768 hrs/PY	19.00	9.00	6.00	18.00	27.00	79
Supervisory staff	2.25	1.25	1.25	2.25	5.00	12
Professional review and inspection (R&I) staff required	21.25	10.25	7.25	20.25	32.00	91
Currently authorized R&I staff	15.25	6.25	5.25	11.25	25.00	63
Additional staff required	6.00	4.00	2.00	9.00	7.00	28

Derived from October 1985 consultant study

Turnaround Times Will Remain a Problem. Table 7 compares the office's goals for completing reviews with our estimates of what turnaround times would be with 28 additional review and inspection staff. Our estimates of turnaround times are based on data provided in the October 1985 consultant study and are probably minimum estimates because no allowances were made for coordination delays between reviewers, delays between the office and the State Architect or State Fire Marshal, or any workload put aside to accommodate cyclical fluctuations in construction projects.

Table 7

Seismic Safety Program

Comparison of Review Turnaround Time

	Office's Goal	*Analyst's Estimate* [a]
Large projects	6 to 8 weeks	11 to 12 weeks
Medium projects	3 to 4 weeks	4 to 5 weeks
Small projects	1 to 2 weeks	9 days

[a] Derived from October 1985 consultant study. Analyst's estimate is based on a review staff of 91, or 28 more than proposed in the budget.

Our analysis indicates that under the proposed 1986–87 budget, the seismic safety program cannot adequately fulfill its mission. Therefore, we withhold recommendation on the seismic safety budget and recommend that prior to budget hearings, the office (1) submit its overdue report on seismic safety program workload, (2) explain why the mandated workload evaluation could not be completed on time, and (3) submit to the Legislature a seismic safety program staffing and funding proposal that is adequate for projected 1986–87 workload.

Affirmative Action Reports Late

The *Supplemental Report of the 1985 Budget Act* required (1) the office to submit a report on its affirmative action policy and (2) the State Personnel Board (SPB) to submit a report on the hiring and promotional policies for women at the OSHPD. Both reports were due by January 1, 1986. The reports had not been submitted at the time this analysis was prepared.

Health and Welfare Agency

CALIFORNIA DEPARTMENT OF AGING

Item 4170 from the General Fund and various funds — Budget p. HW 16

Requested 1986–87	$45,616,000
Estimated 1985–86	45,042,000
Actual 1984–85	24,034,000
Requested increase $574,000 (+1.3 percent)	
Total recommended reduction	3,222,000
Recommendation pending	1,500,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4170-001-001—Support	General	$7,197,000
4170-001-890—Support	Federal	(2,379,000)
4170-101-001—Local Assistance	General	28,110,000
4170-101-890—Local Assistance	Federal	(75,659,000)
Reimbursements	—	10,309,000
Total		$45,616,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Multipurpose Senior Services Program (MSSP)—"Prudent Reserve." Withhold recommendation regarding $1.5 million proposed as a prudent reserve for MSSP site contracts and feasibility study report (FSR) implementation, pending receipt of specified information. 621
2. MSSP—Research. Recommend that prior to budget hearings, the department provide the fiscal committees with specified information regarding its research contract with the University of California, Berkeley. 624
3. MSSP—Variations in Local Site Costs. Recommend that the Legislature adopt supplemental report language requiring the department to submit a report that explains the differences in costs among MSSP sites. 625
4. MSSP—Proposed Position Reductions. Recommend that prior to budget hearings, the department provide the fiscal committees with specified information regarding the proposed MSSP staffing reductions. 626
5. ***Linkages and Health Insurance Counseling and Advocacy Program (HICAP). Reduce Item 4170-001-001 by $129,000 and reduce Item 4170-101-001 by $3,093,000.*** Recommend the Legislature add an item to the Budget Bill reappropriating funds remaining from Ch 1637/84 and Ch 1464/84 and reduce the General Fund appropriations proposed for Linkages and HICAP to reflect the availability of these funds. 627
6. MSSP—Management Information System. Recommend that prior to budget hearings, the department provide the fiscal committees with specified information regarding MSSP's Management Information System. 629

7. Adult Day Health Care (ADHC). Recommend that prior to budget hearings, the department provide the fiscal committees with a timetable for implementing its uniform data collection system. 630
8. Brown Bag Program. Recommend that prior to budget hearings, the department provide the fiscal committees with information regarding the transfer and expansion of the Brown Bag program. 631

GENERAL PROGRAM STATEMENT

The California Department of Aging (CDA) is the single state agency charged to receive and administer funds allocated to California under the federal Older Americans Act (OAA). In addition, the Legislature has designated CDA as the department principally responsible for developing and implementing a comprehensive range of noninstitutional services for older Californians and functionally impaired adults. In order to carry out these two mandates, the department uses federal and state funds to support a variety of services, including local social and nutrition services, senior employment programs, long-term care services to the elderly and functionally impaired adults, and related state and local administrative services and staff training.

The department delivers Older Americans Act services through local agencies on aging, other public and private nonprofit organizations, and service providers. At the center of the local network for delivery of services are planning and coordinating bodies called Area Agencies on Aging (AAAs), often referred to as "triple As." In California, there are 33 AAAs; one in each Planning and Service Area.

In addition to the AAA network, the CDA began in 1984–85 to contract directly with a variety of long-term care service program providers in order to begin building a system of community-based long-term care. The programs within this system are the Multipurpose Senior Services Program (MSSP), Linkages, Adult Day Health Care (ADHC), and Alzheimer's Day Care Resource Centers.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes $45,616,000 from the General Fund and reimbursements for support of CDA's activities in 1986–87. This is an increase of $574,000, or 1.3 percent, above estimated current-year expenditures.

Total program expenditures by the CDA are proposed at $123,654,000 in 1986–87. This is an increase of $557,000, or 0.5 percent, over current-year expenditures. Table 1 presents a summary of the department's funding and expenditures for the prior, current, and budget years.

Virtually all local assistance funding for Older Americans Act (OAA) programs has been "straight-lined" into the budget year. As a result, the budget does not reflect the decrease in nutrition funding which is anticipated to occur due to a reduction in USDA reimbursements. This reduction is effective retroactive to October 1, 1984.

The 52 percent decrease in state administration shown for the budget year is largely due to a technical change in how the department budgets for MSSP. Prior to 1985–86, MSSP was accounted for in state operations. In the budget year, the department has moved $13.7 million in local site costs for MSSP from state operations to local assistance.

CALIFORNIA DEPARTMENT OF AGING—Continued

Table 1
California Department of Aging
Budget Summary
1984–85 through 1986–87
(dollars in thousands)

Program	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
State administration	$12,042	$26,876	$13,032	−52.0%
Older Americans Act (OAA) Programs				
Local Assistance:				
Congregate meals	$38,728	$43,857	$43,857	—
Home delivered meals	16,340	15,089	15,089	—
Employment services	4,736	4,965	4,995	0.6
Social services	29,620	25,606	25,606	—
Ombudsman	(858)	(1,953)	(1,953)	—
Special projects	995	2,070	2,140	3.4
Subtotals, OAA	$90,419	$91,587	$91,687	0.11%
Long-Term Care Programs				
Local Assistance:				
MSSP	—	—	$13,706	—
Linkages/Alzheimer	$275	$3,800	4,200	10.5%
Adult Day Health Care	—	834	1,029	23.4
Subtotals, Long-Term Care	$275	$4,634	$18,935	308.6%
Total, all expenditures	$102,736	$123,097	$123,654	0.5%
Unexpended balance (estimated savings)[a]	(−$6,248)	(−$44)	—	NMF
Balance available in subsequent year[b]	(−$1,627)	(−$3,671)	(−$2,389)	(−34.9%)
Funding Source				
General Fund	*$20,583*	*$34,732*	*$35,307*	*1.7%*
Federal funds	*78,702*	*78,055*	*78,038*	—
Reimbursements	*3,451*	*10,310*	*10,309*	—

[a] The unexpended balance includes funds from the 1985 Budget Act and from legislation funding the Health Insurance Counseling, Ombudsman, and Linkages programs.
[b] The balance available in subsequent years includes unexpended Title III funds and funds available without regard to fiscal year for the ADHC, CCFD, and Alzheimer's programs.
NMF means not a meaningful figure.

The budget does not include any funds for the estimated cost of Merit Salary increases or inflation adjustments for Operating Expenses and Equipment. We estimate that the department will have to absorb approximately $215,000 in such costs.

Table 2 identifies, by funding source, the significant changes in expenditure levels proposed for 1986–87. Several of these proposed changes are discussed later in this analysis.

Table 2
California Department of Aging
Proposed Budget Changes
1986–87
(dollars in thousands)

	General Fund	*Federal Funds*	*Reim-bursements*	*Total*
1985–86 expenditures (revised)	$34,732	$78,055	$10,310	$123,097
1. Cost adjustments:				
a. Increase in existing personnel costs	$152	$94	$38	$284
2. Workload adjustments:				
a. One-time only expenditures	−382	−66	−5	−453
b. Full-year cost of new/expanded programs	400	—	—	400
c. Financial legislation	78	—	65	143
Total workload adjustment	$96	−$66	$60	$90
3. Program change proposals				
a. Ombudsman program efficiencies	−$27	—	—	−$27
b. MSSP program efficiencies	−52	—	−52	−104
c. OLTCA program efficiencies	−62	—	−62	−124
d. Senior Bond Act indirect support augmentation	64	—	—	64
e. Data Systems and Management Analysis reduction	−55	−45	—	−100
f. Brown Bag program expansion	263	—	—	263
g. ADHC program expansion (Ch 1305/85)	196	—	15	211
Total program change proposals	$327	−$45	−$99	$183
1986–87 expenditures (proposed)	$35,307	$78,038	$10,309	$123,654
Change from 1985–86:				
Amount	$575	−$17	−$1	$557
Percent	1.7%	—	—	0.5%

Table 3 presents a summary of personnel-years for the department in the prior, current, and budget years. The size of the decrease in personnel-years for long-term programs in 1986–87 is somewhat misleading, because two positions in this division are being redirected to administration. Taking this redirection into account, the total decrease in personnel-years for long-term care is 3.4, or 9.3 percent. We discuss a portion of this decrease later in this analysis.

Table 3
California Department of Aging
Personnel-Years
1984–85 through 1986–87

Program	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
Administration	76.7	80.1	77.1	−3.7%
Older Americans Act Programs	19.3	22	20.6	−6.4
Long-Term Care Programs	15.2	36.7	31.4	−14.4
Totals	111.2	138.8	129.1	−7.0%

ANALYSIS AND RECOMMENDATIONS

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

- ***Adjustments for One-Time Only Expenditures (−$453,000).*** This includes moving expenses, communications, equipment, and other program costs.

CALIFORNIA DEPARTMENT OF AGING—Continued

- ***Adjustments for the Full-Year Costs of New/Expanded Programs ($400,000).*** The department requests funds to cover the full-year cost of three Linkages programs added by the 1985 Budget Act.
- ***Financial Legislation ($143,000).*** This reflects increases in expenditures in the Community Care Facility Demonstration Project and the Adult Day Health Care program.
- ***Long-Term Care Ombudsman (−$27,000).*** The department proposes to reduce one-half of a position due to completion of projects and workload efficiencies.
- ***Office of Long-Term Care and Aging (−$124,000).*** The department proposes to merge this office with administration of the long-term care division. Of its four positions, the department proposes to (1) redirect two positions to long-term care administration, and (2) delete two positions as a result of efficiencies in the long-term care division.
- ***Senior Bond Act Positions ($64,000).*** The department proposes to permanently establish two positions that it administratively established in the current year in order to implement the Senior Bond Act. These positions perform accounting and contracting activities.
- ***Personnel Branch.*** The department proposes to redirect one position from the Budget and Fiscal Systems Development Section to the personnel branch to provide for increased personnel services.
- ***Administrative Efficiencies (−$100,000).*** The department proposes to eliminate two administrative positions due to efficiencies and completion of developmental activities.
- ***Senior Employment.*** The department proposes to reduce one position due to decreased administrative reimbursements from the federal government. The funding for this position ($30,000) will be transferred to local assistance.
- ***Adult Day Health Care Program Expansion ($211,000).*** The department proposes to begin spending the funds appropriated in Chapter 1305, Statutes of 1985, in order to expand the program. With a portion of these funds, the department proposes to add one position in order to fulfill increasing program responsibilities associated with the growing number of sites.

DIVISION OF LONG-TERM CARE PROGRAMS

On January 1, 1985, the department established its Long-Term Care Division. The division was established to reflect enactment of Chapter 1637, Statutes of 1984 (AB 2226), and Chapter 1600, Statutes of 1984 (SB 1337). This legislation designated CDA as the principal department responsible for developing, implementing, and integrating community-based long-term care programs for older and functionally impaired adults.

When the department took over this responsibility last year, it was responsible for 45 local programs that provided a variety of long-term care services to approximately 3,900 clients. As of December 1985, the department was responsible for approximately 83 sites and 6,500 clients. At the end of the budget year, the department estimates this responsibility will have expanded to 103 local programs and 11,400 clients. This represents an increase of 130 percent in the number of local program sites and almost a 200 percent increase in the number of clients served since the department established the division in January 1985.

Table 4 presents a summary of eligibility requirements, services provided, number of sites and clients, and expenditures in CDA's long-term care division.

In *the 1986–87 Budget: Perspectives and Issues* we review, and make recommendations for improving, the effectiveness and efficiency of the state's community-based long-term care system. On the following pages we present our analysis and recommendations regarding specific long-term care programs. In general, our analysis addresses two areas: (1) the operation of long-term care programs and (2) the Management Information Systems (MIS) of these programs.

OPERATION OF LONG-TERM CARE PROGRAMS

In *Perspectives and Issues* we point out that while MSSP improves the quality of life for its clients, it does so at a cost which is higher than the cost of institutional care. In addition, we note that the type of care MSSP provides—case management—serves as the model for other community-based long-term care programs. Thus, it is important for the Legislature to review the operations of MSSP, as well as the other long-term care programs, in order to ensure that they are managed as efficiently as possible. In the following issues, we identify ways in which the Legislature can improve the efficiency of these programs or reduce their costs.

MSSP Costs in the Budget Year are Uncertain

We withhold recommendation on $1.5 million ($750,000 in Item 4170-001-001 and $750,000 in reimbursements) proposed as a "prudent reserve" for MSSP site contracts and feasibility study report (FSR) implementation, pending the receipt of further information regarding these two proposals.

Currently, the CDA contracts with 18 local sites in order to provide MSSP services to frail Californians who are 65 years of age and older. The department allocates funds to these sites based on an estimate of how many individuals each site will serve monthly.

In the current and budget years, CDA has set aside a "prudent reserve" of 10 percent of the total site contract funds. The department advises that the purpose of this reserve is to pay for (1) potential increases in service costs at local sites and (2) a new Management Information System (MIS). This reserve amounts to $1.3 million in the current year and $1.5 million in the budget year. At the time we prepared our analysis, the CDA was unable to advise us what portion of the reserve was for site contracts and what portion was for FSR implementation.

Two uncertainties make it difficult for us to determine the extent to which MSSP might utilize the reserve in the budget year.

First, the extent to which MSSP site expenditures might increase in the budget year is unknown. In the past several years, sites have been unable to spend all of their contract funds. For example, in 1984–85, sites did not spend $1.1 million, or 13 percent, of their funds.

Because the sites did not spend all of their funds in 1984–85, the department reduced site contracts in 1985–86 and set aside a "prudent reserve" equal to 10 percent, or $1.3 million of the total contract amounts. The department estimates that the sites will not spend $600,000 of this reserve in the current year.

Table 4
California Department of Aging
Long-Term Care Programs
Eligibility, Services, Centers, Clients, and Expenditures
1985–86 and 1986–87

Program	*Eligibility Requirements*	*Services Provided*	*Number of Centers Estimated*		*Number of Clients Estimated*		*Expenditures*	
			12/85	*6/87*	*12/85*	*6/87*	*1985–86*	*1986–87*
Multipurpose Senior Services Program (MSSP)	1. Medi-Cal eligible without share of cost 2. Certified or certifiable for SNF, ICF 3. 65 years of age or over 4. Generally able to be served at a cost no greater than 95% of the cost of institutionalization	Case management and purchase of services	18	22	3,900	5,400 [a]	$19,341,000	$19,258,000 [a]
Community Care Facility Demonstration Project[b]	Same as MSSP, but must qualify for placement in a board and care facility	Case management and purchase of personal care services only	(2)	(2)	(40)	(120)	285,000	415,000
Adult Day Health Care (ADHC)	1. Medical condition requiring treatment or rehabilitation prescribed by a doctor 2. Physical/mental impairments that handicap activities of daily living but do not require institutionalization 3. High potential for deterioration or institutionalization without ADHC	Health, social, therapeutic, nutritional, and transportation services in a day care setting	45	60	2,200	3,150	7,973,000	10,290,000

Linkages	1. Age 18 or over, excluding those eligible for programs provided under the jurisdiction of the state Departments of Rehabilitation, Developmental Services, or Mental Health 2. At-risk of institutionalization, but not "certified" or "certifiable" 3. Clinical judgment	Four levels of services: 1. Information 2. Securing services 3. Short-term counseling 4. Case management	12	13	270	2,600	3,808,000	4,222,000
Alzheimer's Day Care Resource Center Pilot Project	Alzheimer's disease patients and their families	1. Health, social, nutritional, therapeutical, and transportation services in a day care setting 2. Outreach, education, and support for families of patients	8	8	130	250	542,000	544,000
Totals			83	103	6,500	11,400	$31,949,000	$34,729,000

[a] Estimated clients and expenditures do not reflect potential increases as a result of the waiver renewal.
[b] Clients and sites are included in MSSP's figures.

CALIFORNIA DEPARTMENT OF AGING—Continued

In the budget year, the CDA is proposing to set aside a "prudent reserve" of $1.5 million for the MSSP sites. Based on the sites' inability to spend these funds in the past, it seems unlikely that the entire "prudent reserve" will be spent in 1986–87. There are, however, several factors which could increase site expenditures above those proposed in the 1986 Budget Bill. Most importantly:

- ***Federal Waiver Renewal May Increase Costs.*** The department has submitted a waiver renewal request to the federal government which, if granted, could result in a substantial increase in its caseloads and costs above the amounts proposed for 1986–87.
- ***MSSP Will Serve More Clients in the Budget Year.*** Even if MSSP's caseload remains stable in the budget year at the program's maximum (5,400 clients), it will still be larger than the caseload served in the current year. This is because MSSP served fewer than 5,400 clients in 1985–86.

Second, FSR implementation is unknown. The CDA anticipates that it will modify its MIS during the current and budget years. (We discuss this issue later on in this analysis.) Because the department has been unable to submit an acceptable FSR to the Department of Finance (DOF), we cannot determine whether CDA will implement a new computer system in the budget year and therefore whether it will need the full amount of funds in the reserve.

We anticipate that more complete information regarding both of these issues will be available prior to budget hearings. Accordingly, we withhold recommendation regarding MSSP's "prudent reserve."

Future MSSP Research Needs Direction

We recommend that prior to budget hearings, the department provide the fiscal committees with an expenditure plan covering funds earmarked for the department's research contract with the University of California, Berkeley.

Research has been an integral part of the MSSP since the project began in 1977. This is because MSSP was designed to test the impact of case management in preventing unnecessary institutionalization of the frail elderly. In fact, both the state and federal governments require the department to demonstrate MSSP's cost-effectiveness by comparing the public costs associated with MSSP services to the costs of institutionalization.

In order to perform this research, the department has contracted with a number of outside agencies. These contracts fall into two major categories of services:

- ***Management Information System (MIS).*** The MIS for the program consists of a central mainframe computer which is used in conjunction with a distributed network of minicomputers. The department contracts with (1) the Teale Data Center for use of its mainframe computer, (2) the "Four Phase" company in order to purchase, lease, and maintain minicomputers at the local MSSP sites, and (3) California State University, Sacramento, for programming, data management, and operations support for the MIS.
- ***Impact Analysis.*** The department contracts with the University of California, Berkeley (UCB), to provide an analysis of the impact that MSSP services have on costs and client functional levels.

As a result of these contract services, the department has provided the Legislature with valuable information regarding the costs and effectiveness of MSSP services. This information, however, has come at a price. In 1983–84, the MIS and research costs accounted for $110 per client per month, or about 11 percent of the total cost of care per client. In 1984–85, MSSP's costs at the Teale Data Center averaged approximately $42,000 per month.

The MIS portion of these costs is more expensive than the research-related costs. Currently, the department, in conjunction with the DOF is in the process of redesigning the MIS so that it is less costly and more responsive to local site needs. (We discuss this issue later in this analysis.) In both the current and budget years, the department's contract with UCB will cost $372,000. The Department of Finance's review of the MIS does not include a review of the research contract with UCB.

The department advises that in the current year, UCB will prepare an impact analysis similar to the one submitted in July 1985, which includes, among other things, a description of clients, their functional changes, and an analysis of Medi-Cal and Medicare utilization. The department is unable to advise us how UCB will use its contract funds in the budget year.

We believe that the UCB's research should address different issues each year, and that the Legislature should have the opportunity to review and comment on the proposed areas of research. This review will enable the Legislature to direct the research to those policy and fiscal areas which are most important to the Legislature. We note, for example, that in 1984–85, UCB devoted a significant portion of its research to the impact of MSSP services on the functional levels of clients. The UCB found that, on average, MSSP services have no significant impact on a client's functional level. It seems unlikely that UCB could provide the Legislature with any more meaningful information about this issue in the future. We believe there are a number of other issues, however, that UCB *could* explore which would assist the Legislature in making policy and funding decisions. In this regard, it would make more sense for UCB to concentrate on issues such as targeting of clients, rather than work on issues about which the Legislature already has a great deal of information.

So that the Legislature will have an opportunity to review CDA's plans for contracting with the UCB in the budget year, we recommend that prior to budget hearings, the CDA provide the fiscal committees with an expenditure plan regarding research contract funds with UCB.

MSSP Sites Have Widely Varying Expenditures

We recommend that the Legislature adopt supplemental report language requiring the department to submit a report by December 1, 1986, that explains the differences in service and administrative costs among MSSP's sites and describes what the state might do to minimize these differences.

The most recent annual report to the Legislature on MSSP identifies service and administrative costs incurred during 1983–84 by the eight original MSSP sites. The report identifies costs for four specific categories:

- ***Existing services,*** such as In-Home Supportive Services (IHSS) and Supplemental Security Income (SSI). The existing service costs include most of the public costs of keeping MSSP clients in their own homes.
- ***MSSP services,*** which are the additional health and social services that MSSP can purchase with Medi-Cal funds as a result of its federal Medicaid waiver.

CALIFORNIA DEPARTMENT OF AGING—Continued

- *Local site administration,* which includes case management services and site support services, such as salaries and operating expenses.
- *State administration,* which is divided equally among all the sites, and includes state support, MIS, and impact analysis costs.

The report shows that there are wide variations among local sites regarding expenditures per client for services and site administrative costs. For example, existing service costs ranged from $398 per client month to $734 per client month. The MSSP service costs ranged from $6 to $110, while site administrative costs ranged from $203 to $403. The department advises that these differences in *service* costs result largely from differences in the local service areas which are not easily controlled. For example, counties award different amounts of IHSS hours for clients with similar disabilities, resulting in different costs per clients. In addition, utilization of existing Medi-Cal services varies with the local health care market. Generally, more doctors in an area mean higher costs per client.

On the other hand, differences in site *administrative* costs such as indirect service charges and staffing costs, result from factors that may be more easily controlled by the department.

We believe that in some cases, the department may be able to minimize the differences in costs among sites in the following two categories, thereby trimming site costs:

- *Service Costs.* In the current year, the department is contracting with the UCB to develop a uniform method which MSSP sites could use in awarding IHSS hours to clients. While this method has not yet been utilized by the sites, it has the potential for ensuring that clients receive the appropriate level of services given their disabilities.
- *Administrative Costs.* The CDA could award a flat indirect cost rate to MSSP sites, rather than reimburse sites for whatever amount they request. In addition, CDA could better standardize staff-to-client ratios among sites.

Because there may be efficiencies to be gained from minimizing the cost differences among sites, we recommend that the Legislature adopt supplemental report language requiring the department to submit a report to the Legislature explaining differences in MSSP site costs.

The following supplemental report language is consistent with this recommendation:

"The department shall submit a report to the Legislature by December 1, 1986, regarding differences in the service and administrative costs among Multipurpose Senior Services Program sites. Specifically, the report should (1) explain why the differences in service and administrative costs occur among sites and (2) describe the steps the department will take to minimize these differences as well as the potential fiscal effect of each."

MSSP Personnel Reduction May be Inappropriate

We recommend that prior to budget hearings, the department provide the fiscal committees with specified information regarding the MSSP staffing reductions.

Currently, the department has 14 staff assigned to MSSP. These staff provide a number of different services which include:

- Site contracting, reimbursement, support, and quality control.

- Generating and tracking client cost information necessary to meet state regulations and federal Medicaid waiver requirements.
- Billing for federal reimbursements.
- Developing the Community Care Facilities Demonstration Project (AB 3900).

The budget proposes to eliminate $104,000 and the following two positions from MSSP: (1) a staff services manager (SSM) and (2) a management services technician (MST). According to the department, the SSM is being deleted because the research and administrative/fiscal functions are being consolidated within the MSSP unit. The MST is being reduced due to:

- The increased involvement in quality control and data coordination by the MIS contractors (California State University, Sacramento [CSUS]).
- The decreased state role in the review of local site data, such as provider rates and units of service.
- The automation of MSSP site contracts through CALSTARS.

The department has not provided the Legislature with adequate information justifying its proposal to eliminate the MST position. We believe there are three issues concerning the department's proposal which require further clarification. First, CDA has not provided us with documentation showing that the increase in CSUS's quality control and data coordination activities will be more cost-effective than performing these activities with state staff. Second, MSSP has not been able to tell us what the impact will be of decreasing the state's involvement in reviewing local site data. Finally, MSSP has not documented the decreases in workload which it claims have resulted from increased automation through CALSTARS.

Accordingly, we recommend that prior to budget hearings, the department provide the Legislature with the following information:

- The cost of using departmental staff to perform the quality control and data coordination functions, relative to the cost of having CSUS performing these functions. The cost estimates should be accompanied by an estimate of the level of service that the contractor will provide, and how this level compares to the level of services currently provided with state staff.
- The impact of reducing the state's efforts in reviewing local site data. Specifically, the department should address the potential increase in program costs as a result of the state reducing its scrutiny of site data.
- The decreased workload resulting from the automation of MSSP site contracts.

Linkages and Health Insurance Counseling and Advocacy Funding Still Available

We recommend that the Legislature (1) add an item to the Budget Bill which reappropriates funding for the Linkages and Health Insurance Counseling and Advocacy programs available through Ch 1637/84 and Ch 1464/84 and (2) reduce the funds earmarked for these programs in the Budget Bill by a corresponding amount, in order to reflect the amount available through reappropriation. (Reduce Item 4170-001-001 by $129,000 and Item 4170-101-001 by $3,093,000.)

Chapter 1637, Statutes of 1984, appropriated $3,475,000 in 1984–85 to implement the Linkages program. Of these funds, $3.0 million was to be

CALIFORNIA DEPARTMENT OF AGING—Continued

allocated to the local Linkages sites and $475,000 was to be used for state administration. Chapter 1464, Statutes of 1984, appropriated $425,000 to CDA to implement the Health Insurance Counseling and Advocacy Program (HICAP). Of these funds, the department budgeted $57,000 for state support and $368,000 for local assistance.

Because the CDA implemented both programs later than when the Legislature had originally anticipated, a considerable portion of the funds appropriated by these measures was not spent during 1984–85 and is still available. Specifically the department did not spend $2,842,000 of the funds appropriated for the Linkages program including (1) $117,000 of the $475,000 appropriated for state administration and (2) $2,725,000 of the $3.0 million appropriated for local program administration. Of the funds appropriated for HICAP, the department did not spend (1) $12,000 of the $57,000 earmarked for state administration and (2) *none* of the $368,000 earmarked for local assistance. Thus, the department did not spend a total of $3,222,000 of the funds available for these programs in 1984–85.

These unexpended funds are available for expenditure in the budget year if reappropriated by the Legislature. If the Legislature reappropriates these funds it would free up $3,222,000 from the General Fund, which it could use for its priorities in this or other program areas during 1986–87. To secure this increased flexibility, we recommend that the Legislature (1) add an item to the Budget Bill which reappropriates these funds and (2) delete an equivalent amount in General Fund support allocated in the Budget Bill for the Linkages and HICAP programs in 1986–87. These budget changes would not reduce services in either program.

The following Budget Bill language is consistent with this recommendation:

"4170-890—Reappropriation, California Department of Aging. As of June 30, 1986, the unexpended balance of the appropriation made for the Linkages program by Ch 1637/84, is hereby appropriated for transfer to the items and the amounts as follows: In augmentation of Item 4170-001-001, $117,000, and in augmentation of Item 4170-101-001, $2,725,000. As of June 30, 1986, the unexpended balance of the appropriation made for the Health Insurance Counseling and Advocacy Program by Ch 1464/84, is hereby appropriated for transfer to the item and in the amounts as follows: In augmentation of Item 4170-001-001, $12,000, and in augmentation of Item 4170-101-001, $368,000."

MANAGEMENT INFORMATION SYSTEM (MIS) AND REPORTING ISSUES

Last year in the *Analysis,* we raised several issues regarding the Long-Term Care Division's MIS. Specifically, we expressed concern regarding the following issues:

- The lack of coordination between the MISs for MSSP and the Adult Day Health Care (ADHC) program.
- The potential for overlap among MIS staff in the different long-term care programs and in the division's Evaluation and Information branch.
- The lack of information regarding a planned expenditure of $100,000 for an MIS consultant.

To address these concerns, the Legislature adopted language in the 1985 Budget Act and the *Supplemental Report of the 1985 Budget Act* which required the CDA to report on the development and expenditure of funds for a coordinated MIS.

At the time we prepared this analysis, we had no evidence that the situation had changed significantly since last year. The required report had not been submitted, and as far as we can determine, the department has not improved the coordination of its various management information systems.

Moreover, there are still data collection problems *within* programs. The following two issues address MIS and cost reporting issues within the MSSP and ADHC programs.

Problems with the MSSP Management Information System May Affect Services

We recommend that prior to budget hearings, the department provide the fiscal committees with specified information regarding the MSSP's Management Information System (MIS).

The department's MIS for MSSP was designed to collect information regarding the program's impact on clients and its cost-effectiveness. In order to determine this impact, the MIS provides information regarding the following:

- ***Client management,*** which covers all aspects of client care.
- ***Site management,*** which includes administrative functions such as monitoring and reporting.
- ***State management,*** which includes monitoring and reporting of site and program activities.

The Teale Data Center (TDC) supports the MIS and is linked to a distributed network of minicomputers which are located at the eight original MSSP sites, the CDA, the UCB, and the CSUS.

In July 1985, the department submitted an FSR to the Office of Information Technology (OIT) within the DOF, which proposed to substantially change the MIS for MSSP. The FSR identified two principal problems with the existing MIS:

- ***Costs.*** In 1983–84, MIS costs accounted for 19 percent of the total MSSP administrative costs per client month.
- ***Hardware Limitations.*** The current configuration is not able to support additional terminals or printers beyond the original eight sites.

In order to address these and other problems, the FSR considered four alternative systems for MSSP. Of the four alternatives, the FSR recommended a system of minicomputers located at each MSSP site with a telecommunications link to a central minicomputer at CDA.

In November 1985, OIT rejected MSSP's FSR, on the basis that it failed to demonstrate that the proposed solutions were technically, operationally, or economically feasible. Specifically, OIT stated that (1) the FSR had poorly defined and documented the MIS's principal problems and (2) had recommended an alternative that OIT considered to be far too risky for the department to implement. The OIT suggested that the department (1) determine if moving MSSP's system to the Health and Welfare Data Center (HWDC) would reduce costs in the short run and (2) resubmit the FSR in order to come up with a long-term solution.

We agree that the FSR did not do a good job of documenting either the problems of or solutions to the MIS. For example, there are other alternatives which the FSR failed to consider, such as the system currently used

CALIFORNIA DEPARTMENT OF AGING—Continued

by the Linkages sites. Under such a system, MSSP sites would have personal computers at the local site, without a telecommunications link to a central computer. This type of system is less complicated and potentially cheaper and less risky than the alternative proposed by the FSR. In addition, CDA should be considering MIS options for all its long-term care programs which are compatible with one another.

We note that while further delay in modifying the MIS may be inevitable, such delay may raise MSSP's costs and pose problems for its clients. Specifically:

- ***MSSP's High MIS Costs May Jeopardize Renewal of the State's Federal Medicaid Waiver, Which is Scheduled to Expire June 30, 1986.*** In a November 1985 letter to the department concerning extension of the federal waiver, the Regional Director of the Health Care Financing Administration expressed concerns about MSSP's high administrative costs, particularly those related to the MIS and research. If the federal government does not extend the waiver, the MSSP will terminate.
- ***MSSP Sites May Experience Inefficiencies in Running Their Programs Without Computer Capability.*** Ten of the 18 sites have no computer capability at all, which may result in excessive administrative costs. This is because MSSP must contract for, bill, monitor, and track a large number of services. Sites cannot perform these tasks efficiently without computer capability.

Because problems with the MIS may significantly affect the operation of the MSSP, we recommend that prior to budget hearings, the department advise the fiscal committees regarding the extent of these problems and what state staff can do to ameliorate them while a new FSR is being developed. Specifically, the department should advise the fiscal committees regarding:

- The status of the state's request for renewal of the federal waiver to continue MSSP and the extent to which federal approval of the waiver request is contingent on reducing the MIS costs.
- The department's timeline for resubmitting the FSR to OIT.
- The problems the state and the sites will experience as a result of having an inadequate MIS, and what the state can do to alleviate these problems.
- The advantages and disadvantages of redesigning MSSP's MIS so that it is similar to the Linkages program's MIS.

Adult Day Health Care Data Collection System Is Nonexistent

We recommend that prior to budget hearings, the department provide the fiscal committees with a timetable for implementing its uniform data collection system for the Adult Day Health Care program.

The Adult Day Health Care (ADHC) program provides an alternative to institutionalization for older and disabled individuals. The purpose of the program is to enable individuals to remain at home by providing them with appropriate health, rehabilitative, and social services in a day care setting. The ADHC program also assists families and other caregivers by providing them with respite while the clients participate in the program. The cost of providing these services is supported in part by General Fund start-up grants, client contributions, and Medi-Cal reimbursements.

Chapter 1624, Statutes of 1984, required the Department of Health Services (DHS) to develop by January 1, 1986, a methodology for setting rates for ADHC centers. (We discuss this issue as part of our analysis of the DHS's budget.) It is important for the DHS to establish rates that reflect the actual costs for ADHC because the Medi-Cal program is the single most important ongoing funding source for ADHC programs. In spite of Medi-Cal's importance to ADHC centers, the DHS has not examined ADHC costs for the purpose of Medi-Cal reimbursement since March 1982.

Chapter 1624 also required the CDA to develop by January 1, 1985, a uniform data collection system for ADHC in order to facilitate the collection of cost data. The CDA, however, has not implemented this uniform system as required by Chapter 1624. Based on our review, we conclude that the lack of a uniform data collection system has made it more difficult for the DHS to prepare a rate methodology for the ADHC program. This is because the cost reports from the various centers which DHS must use in order to develop the rates are not comparable. For example, ADHC sites include different costs within the same cost items.

In order to facilitate rate development for the ADHC program, we recommend that prior to budget hearings, the CDA provide the Legislature with a timetable for implementing its uniform data collection system.

Brown Bag Proposal Has a Few Loose Ends

We recommend that prior to budget hearings, the department provide the fiscal committees with information regarding the transfer and expansion of the Brown Bag Network.

Chapter 1345, Statutes of 1980, established the Brown Bag Network Act. This program utilizes older volunteers to provide harvested or donated fresh produce and other foods to low income older individuals. Currently, the program consists of 32 contracts with nonprofit senior organizations that distribute food at 925 sites in 26 of the 33 AAAs through the state, at a cost of $460,000.

In the budget year, the department proposes to increase funding for the program by $320,000 by (1) requesting an additional $263,000 from the General Fund and (2) transferring $57,000 from state operations to local assistance. These additional funds will be used to fund the following program changes:

- Expansion of the program statewide by providing contract funds to the seven Planning and Service Areas (PSAs) that currently have no Brown Bag program ($140,000).
- Increase the base contract amount from approximately $15,000 to $20,000, in order to allow programs already in operation to purchase needed capital equipment ($180,000).
- Transfer from the state to the AAAs funding responsibility for contracting with program providers.

In the *Analysis of the 1983–84 Budget Bill*, we presented our review and recommendations on the Brown Bag program. We found that the program was worthwhile and warranted continuation. While our views regarding the program have not changed, we have the following concerns with the department's proposal:

- The department has not provided the Legislature with a plan to train AAAs to contract and monitor these programs, and to ensure that no disruption of service provision will occur as a result of the transfer.

CALIFORNIA DEPARTMENT OF AGING—Continued

- The department has not documented that the AAAs can monitor the program with an equivalent or decreased level of funding. Currently, the department contracts and monitors all local Brown Bag programs using one state staff person and $57,000.

In order to ensure that the AAAs are able to monitor this program as efficiently and effectively as the state, we recommend that prior to budget hearings, the department provide the fiscal committees with the following information:

- A plan to train AAAs to contract for and monitor these services so that no disruption in services will occur as a result of the transfer.
- Documentation that the AAAs can monitor these programs with the same or fewer resources than the state.

Departmental Reporting Requirements

The *Supplemental Report of the 1985 Budget Act* and the 1985 Budget Act required the department to submit three reports to the Legislature during the current year. At the time we prepared our analysis, none of the required reports had been submitted. Without these reports, the Legislature is unable to determine the extent to which the department is achieving the goals of the Legislature, particularly in the areas of nutrition and social services.

Report	*Date Due to the Legislature*	*Required By*
Nutrition Priorities	December 1, 1985	Supplemental Report of the 1985 Budget Act
Long-Term Care Coordination	December 1, 1985	Supplemental Report of the 1985 Budget Act
Transfers of Title IIIB Funds and Social Services Expenditures	February 1, 1986	1985 Budget Act

CALIFORNIA DEPARTMENT OF AGING—REVERSION

Item 4170-495 to the General Fund — Budget p. HW 16

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

Chapter 1x, Statutes of 1983, appropriated $85,000 without regard to fiscal year for a pilot project to serve congregate meals to elders in a public housing project. The California Department of Aging (CDA) contracted with a local entity to carry out the project for a three-year period. At the end of the contract period, $706 remained unspent. We recommend that this amount be reverted to the General Fund.

Chapter 10, Statutes of 1985, appropriated $208,500 to the Office of the State Long-Term Care Ombudsman to fund local ombudsman programs in order to provide additional services on behalf of nursing home residents. The budget contains $208,500 to continue this level of effort in

1986–87. The department estimates that $9,848 of the funds appropriated by Chapter 10 will not be spent at the end of 1985–86. In order to avoid double-budgeting these funds in the budget year, we recommend this amount be reverted to the General Fund.

Health and Welfare Agency
COMMISSION ON AGING

Item 4180 from the General Fund and various funds — Budget p. HW 25

Requested 1986–87	$563,000
Estimated 1985–86	583,000
Actual 1984–85	382,000
Requested decrease $20,000 (−3.4 percent)	
Total recommended reduction	None

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4180-001-001—Support	General	$238,000
4180-001-890—Support	Federal	(209,000)
4180-001-983—Support	California Senior's	325,000
Total		$563,000

GENERAL PROGRAM STATEMENT

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

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

The 1985 Budget Act authorized 6.6 positions for the CCA in the current year. The CCA proposes to maintain the same number of positions in the budget year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $238,000 from the General Fund to support the CCA in 1986–87. This is a decrease of $20,000, or 7.8 percent, from estimated current-year expenditures.

Total program expenditures in the budget year are projected at $772,-000. This amount includes $238,000 from the General Fund, $209,000 in federal funds, and $325,000 from the California Senior's Fund (CSF). The total is $10,000, or 1.3 percent, less than estimated current-year expendi-

COMMISSION ON AGING—Continued

tures. Table 1 shows CCA funding for the prior, current, and budget years. Table 2 shows proposed budget changes.

Table 1
Commission on Aging
Budget Summary
1984–85 through 1986–87
(dollars in thousands)

Program	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–1986*
Commission	$365	$457	$447	−2.2%
Senior Legislature	204	325	325	—
Totals	$569	$782	$772	−1.3%
Funding Source				
General Fund	*$178*	*$258*	*$238*	*−7.8%*
Federal funds	*187*	*199*	*209*	*5.0*
California Senior's Fund	*204*	*325*	*325*	—

Table 2
California Commission on Aging
Proposed Budget Changes
1986–87
(dollars in thousands)

	General Fund	*Federal Funds*	*Senior's Fund*	*Total*
1985–86 expenditures (revised)	$258	$199	$325	$782
1. Cost adjustments				
a. Increase in existing personnel costs	21	6	1	28
b. Operating expenses and equipment	−41	4	−1	−38
1986–87 expenditures (proposed)	$238	$209	$325	$772
Change from 1985–86:				
Amount	−$20	$10	—	−$10
Percent	−7.8%	5.0%	—	−1.3%

The proposed decrease in General Fund support shown in Table 1 is somewhat misleading. This is because the 1986 Budget Bill contains language that would reduce the $41,000 requested for the CSL by an amount equal to one-half of any private contributions made to it in excess of $33,000. This language is identical to language contained in the 1985 Budget Act. The commission estimates that the CSL will receive $325,000 from its tax check-off donations in 1986–87. In anticipation of this revenue, the administration reduced $41,000 from CSL's budget. This reduction appears to be reasonable.

The budget proposal does not include additional funding for Merit Salary Adjustments or inflation adjustments to Operating Expenses and Equipment. We estimate that the department will have to absorb approximately $8,000 in such costs.

Health and Welfare Agency

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

Item 4200 from the General Fund and various funds — Budget p. HW 27

Requested 1986–87	$84,785,000
Estimated 1985–86	84,728,000
Actual 1984–85	78,797,000
Requested increase $57,000 (+0.1 percent)	
Total recommended reduction	None

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4200-001-001—Support	General	$7,138,000
4200-001-890—Support	Federal	(2,800,000)
4200-001-139—Support	Drinking Driver Program Licensing	240,000
4200-001-243—Support	Methadone Program Licensing	339,000
4200-101-001—Local assistance	General	71,952,000
4200-101-890—Local assistance	Federal	(30,876,000)
Reimbursements	—	5,116,000
Total		$84,785,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. School/Community Primary Prevention Program (S/CPPP). Recommend that (a) beginning in 1986–87, the Department of Alcohol and Drug Programs (DADP) and State Department of Education (SDE) begin facilitating information sharing among counties and (b) the Legislature adopt supplemental report language requiring the departments to submit a report describing the assistance they have provided to counties. 641
2. School/Community Primary Prevention Program. Recommend that the Legislature adopt supplemental report language requiring DADP to report on the development of comparable prevention program performance measures. 643
3. School/Community Primary Prevention Program. Recommend that, prior to budget hearings, DADP and SDE provide the fiscal committees with a plan for improving the funding requirements for S/CPPP. 644
4. School/Community Primary Prevention Program. Recommend that the Legislature adopt supplemental report language which requires DADP, SDE, and the Office of Criminal Justice Planning to submit a plan for coordinating drug prevention program funds. 645
5. ***Financial Management and Audit Staff. Increase Item 4200-001-001 by $157,000; Increase Item 4200-001-890 by $59,000; Increase reimbursements by $31,000; Reduce Item 4200-101-001 by $157,000; and Reduce Item 4200-101-890 by*** 646

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

$59,000. Recommend that the Legislature (a) restore 9.5 positions in the Financial Management and Audit Section on a limited-term basis because without workload data it is premature to eliminate these positions and (b) adopt supplemental report language which requires the DADP to submit a report which documents changes in the audit staff's workload.

6. Resource and Economic Development Staff. Recommend that, prior to budget hearings, the department submit to the fiscal committees information regarding the impact of eliminating its resource and economic development position. 648
7. Audit Repayment Trust Fund. Recommend that, prior to budget hearings, the DADP advise the fiscal committees how it plans to use funds from the Audit Repayment Trust Fund. 649
8. Methadone Licensing Trust Fund. Recommend that, prior to budget hearings, the department advise the fiscal committees on its plans for this fund's reserve. 649

GENERAL PROGRAM STATEMENT

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

The 1985 Budget Act authorized 175.5 positions for the department in the current year. The department has administratively established 3.5 positions, bringing the total to 179 positions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $79,090,000 from the General Fund for the DADP in 1986–87. This is an increase of $211,000, or 0.3 percent, over current-year expenditures. The proposed General Fund appropriation of $7,138,000 is for support of the department and $71,952,000 is for local assistance.

The budget proposes total expenditures from all funds of $118,461,000 for alcohol and drug programs in 1985–86. This includes $79,090,000 from the General Fund, $33,676,000 from federal funds, $579,000 from the Drinking Driver and Methadone Program Licensing Trust Funds, and $5,116,000 in reimbursements. Total expenditures proposed for 1986–87 are $965,000, or 0.8 percent, less than estimated total expenditures in the current year. Table 1 shows total expenditures for the prior, current, and budget years, by funding source.

The budget does not include any funds for the estimated cost of General Fund Merit Salary increases or inflation adjustments for Operating Expenses and Equipment. We estimate that the department will have to absorb approximately $255,000 in such costs.

Table 2 shows, by funding source, the significant changes in expenditure levels proposed in the budget for 1986–87. Several of these proposed changes are discussed later in this analysis.

Table 1
Department of Alcohol and Drug Programs
Budget Summary
1984–85 through 1986–87
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
Alcohol—Local Assistance	41.1	47.3	43.9	$46,161	$49,287	$48,545	−1.5%
Drugs—Local Assistance	45.2	41.3	38.4	54,338	58,776	58,863	0.1
Subtotals, Local Assistance	86.3	88.6	82.3	$100,499	$108,063	$107,408	−0.6%
State Operations	89.3	81.5	70.6	$9,845	$11,363	$11,053	−2.7%
Totals	175.6	170.1	152.9	$110,344	$119,426	$118,461	−0.8%
Funding Source							
General Fund				*$75,420*	*$78,879*	*$79,090*	*0.3%*
Federal funds				*31,547*	*34,698*	*33,676*	*−2.9*
Drinking Driver Program Licensing Trust Fund					*233*	*240*	*3.0*
Methadone Program Licensing Trust Fund					*330*	*339*	*2.7*
Reimbursements				*3,377*	*5,286*	*5,116*	*−3.2*

Table 2
Department of Alcohol and Drug Programs
Proposed Budget Changes
1986–87
(dollars in thousands)

	General Fund	*Federal Funds*	*Reimburse-ments*	*Special Funds*	*Total*
1985–86 expenditures (revised)	$78,879	$34,698	$5,286	$563	$119,426
Proposed changes:					
1. Cost adjustments					
a. Employee compensation adjustments	$234	$105	$19	$16	$374
b. Limited-term/one-time only funds	−23	−100	−361	—	−484
c. Reduction in reimbursement authority	—	—	−15	—	−15
2. Workload adjustments					
a. Friday Night Live, Youth Coordination, EDD Interagency Agreement	—	—	218	—	218
3. Program changes					
a. Audit program reduction	−157	−59	−31	—	−247
b. SSI program reduction	—	−1,027	—	—	−1,027
c. Administration, alcohol, and drug reductions	−73	−28	—	—	−101
d. Increase to local assistance	230	87	—	—	317
1986–87 expenditures (proposed)	$79,090	$33,676	$5,116	$579	$118,461
Change from 1985–86:					
Amount	$211	−$1,022	−$170	$16	−$965
Percent	0.3%	−3.0%	−3.3%	2.8%	−0.8%

ANALYSIS AND RECOMMENDATIONS

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

- *Social Security Income (SSI) program.* The budget reflects discontinuation of a contract with the Social Security Administration (SSA) under which the department monitors the treatment of SSI recipients. The SSA can contract for this service with a private firm, as it does for the drug program.
- *Departmental staff development and training.* The department proposes to delete its training coordinator, based on efficiencies it has achieved as a result of computer applications.
- *Drug program county review unit.* The department proposes to delete one position in the county review unit by reviewing county administration every 18 months, rather than every 12 months.
- *Criminal justice function.* The department proposes to delete its criminal justice coordinator position, because the Department of Corrections is pursuing these activities on its own.
- *Drug program clerical and business services positions.* The department proposes to delete one-half of a clerical position in the Drug Division and one position in its Business Services Unit as a result of deleting other positions within the department.

THE SCHOOL/COMMUNITY PRIMARY PREVENTION PROGRAM

The *Supplemental Report of the 1985 Budget Act* requires our office to review the performance of the School/Community Primary Prevention Program (S/CPPP). The S/CPPP was established by Chapters 1002/81 (SB 283) and 1285/82 (SB 1409). The purpose of the program is to help prevent drug abuse among youth through the joint efforts of the local schools and drug program administrators. While counties operated drug prevention programs for youth in the past, there was no single state program with a joint school-community focus prior to the establishment of the S/CPPP.

What follows is our assessment and recommendations regarding the S/CPPP. Our analysis addresses the following questions:

- How does the S/CPPP operate at the state and local levels?
- What is the S/CPPP funding history and what are S/CPPP funds used for?
- How can the administration of the S/CPPP be improved?

How Does the S/CPPP Operate at the State Level?

For the most part, we found this program characterized by enthusiasm and commitment both at the state and local levels. Virtually all of the program participants we spoke to—including parents, teachers, school administrators, community members, and young people—described this program as very successful. Examples of program strength include community commitment, the development of innovative local programs, and the extensive use of volunteers.

At the state level, the State Department of Education (SDE) and the Department of Alcohol and Drug Programs (DADP) are jointly responsible for monitoring all 25 local S/CPPPs. The SDE is responsible for supervising 12 county programs and DADP is responsible for the remaining 13 programs. The departments monitor these programs quarterly, based on information submitted by the counties. Local programs are required to set forth objectives to be achieved each quarter, and report to the state during the following quarter on whether or not they achieved those objectives. In addition, DADP and SDE visit the counties approximately twice a year in order to determine the performance of the local programs.

How Does the S/CPPP Operate at the Local Level?

Local programs are jointly administered by the county office of education and the local drug program administrator. In general, counties are free to design their drug prevention services in a manner that they believe is most appropriate for the community. Because program administrators have different theories about what types of prevention activities work best in their communities, each S/CPPP has a unique configuration of services.

There are, however, several components that are common to most county programs. These components are summarized in Table 3 and discussed in detail below.

Table 3

School-Community Primary Prevention Programs
Primary Program Components

County	*Classroom Curriculum and Training*	*Other Teacher/Parent/ Student Training*	*Counseling, Peer Counseling, or "Helping"*	*Parent/Community Groups, or Advisory Boards*	*Mini-Grants or Other Programs*
Dept. of Alcohol and Drug Programs					
Colusa	X	X			
Contra Costa		X	X		
Fresno			X	X	
Lassen	X			X	
Los Angeles	X			X	
Mendocino				X	X
Plumas	X			X	
Sacramento	X	X		X	
San Bernardino		X	X		X
San Mateo	X	X	X	X	
Santa Barbara		X			
Santa Cruz		X			X
Tulare	X	X		X	
State Dept. of Education					
Alameda					X
Butte		X		X	X
Madera	X		X		
Monterey	X				X
Nevada	X	X		X	
Orange	X		X	X	
Placer	X	X			
San Diego		X		X	X
San Francisco		X			X
Santa Clara	X	X			
Sonoma		X	X		
Tuolumne		X	X		X

- *Classroom Curriculum and Training*—This is one of the most widely used program elements. These programs mostly utilize "affective education," which evolved from the theory that children and adults abuse drugs because they lack certain kinds of living skills and values.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

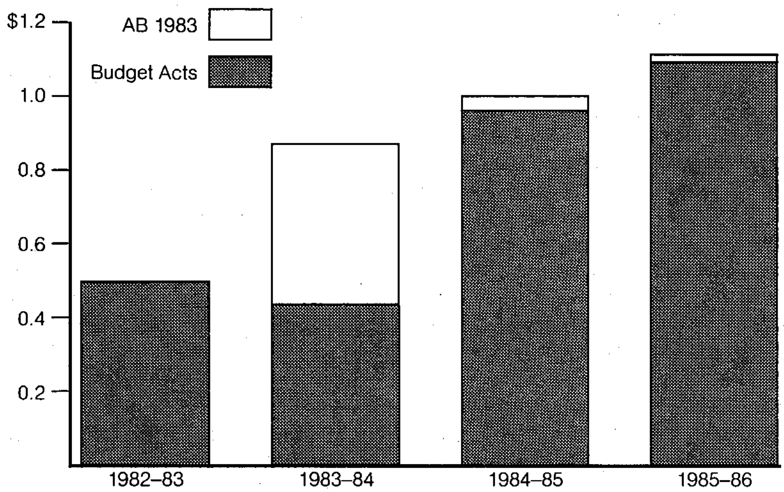
Thus, the curriculum focuses on helping children develop (1) decision-making skills, (2) means of coping with problems, and (3) an appreciation for themselves as worthwhile human beings. Children also are provided with information about legal and illegal drugs and alcohol, and are provided with opportunities to examine their attitudes about these substances and how they are influenced in using them by other people and events.

- *Other Teacher or Parent Training*—In addition to training for a specific curriculum package, many counties offer training for other kinds of skills. For example, parenting classes provide parents with information about the signs of drug and alcohol abuse by their children, how to deal more effectively with their children who are abusing substances, or how to help prevent their children from abusing substances.
- *Counseling, Peer Counseling, or "Helping"*—In general, certain youth in junior high school and high school are given training that enables them to provide guidance, help, or be a role model for other youth their own age or younger children who have not yet developed attitudes about drugs or alcohol. Sometimes these peer helpers are chosen because they themselves are considered to be "at-risk" of abusing drugs or alcohol. Other times they are chosen because they have been identified as children that other students would talk to if they had problems. In a few counties, adult counselors are available to work with children, parents, or teachers.
- *Parent/Community Groups, or Advisory Boards*—The extent of community involvement in the S/CPPP varies widely among counties. Generally, community groups support the school-based portion of the program and try to educate and involve other portions of the community in preventing substance abuse.
- *"Mini-Grants" and Other Programs*—There are many examples of programs that do not fit neatly into the first three categories.
  —Three counties have a system of "mini-grants" whereby they grant small amounts of money to many different organizations in the community to conduct different activities. One county funded 29 different projects, among them an after-school education program for "latch key" children and a resume writing class for single mothers.
  —A few counties use puppet shows, improvisational theater, or other types of dramatic presentation to convey information on drugs and alcohol and their abuse.
  —Other unique program elements include a mobile substance abuse information van, a corporate board of reference which provides in-kind assistance and publicity to the program, and safe rides programs.

Program Funding

Funding for the S/CPPP has increased from $500,000 in 1982–83 to $1.1 million in 1985–86, as shown in Chart 1. These funds were appropriated from the General Fund by various budget acts and Ch 952/83 (AB 1983). Twelve counties have been funded since 1982–83, following the passage of Ch 1285/82 (SB 1409). Thirteen additional programs were funded in January 1984, following the passage of AB 1983.

Chart 1
School/Community Primary Prevention Program Expenditures
1982–83 through 1985–86 (in millions)



How Do Counties Use Their S/CPPP Funds?

Counties actually spend their money more uniformly than one would suspect, given the diversity of their program elements. For the most part, counties use their funding to pay for two major categories of expenses:

- Personal services, of which the largest portion pays the salary of the project coordinator.
- Operating expenses, of which the largest portion often purchases curriculum and/or consultants who provide a variety of different services, such as training parents and teachers.

Some counties also use a portion of their funds for teacher stipends, and to pay the costs of substitute teachers while other teachers are being trained to provide drug abuse prevention education.

The S/CPPP makes extensive use of volunteers. These volunteers include parents, students, and other members of the community. Because counties do not uniformly report the number of volunteers utilized, it is difficult to estimate the actual number and dollar value of the volunteers statewide.

Information Sharing May Help Counties Establish Better Programs

We recommend that the Legislature adopt supplemental report language which requires SDE and DADP to (1) provide technical assistance to and facilitate information sharing among counties and (2) submit a report that describes the type of assistance provided to counties.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

The primary goal of the S/CPPP is to prevent drug abuse among youth. The DADP and SDE, however, were unable to provide us with documentation that S/CPPPs reduce the incidence of drug abuse among program participants. This is primarily because these departments evaluate the local programs through the use of the following three types of *process,* rather than *outcome,* measurements:

- Whether or not programs achieve self-set objectives.
- How many people were reached, materials produced, and activities scheduled.
- How favorably participants evaluated the program activities.

The departments could measure the effect of the S/CPPP in preventing drug abuse among youth if they established a research project where some youth received S/CPPP services (experimental group) and some youth did not (control group). The cost of such an experiment, however, might exceed the cost of the current program, and would be difficult to design.

Although there is no information available regarding the effectiveness of the S/CPPP, the evidence suggests that different types of prevention program designs may be more effective than others. For example:

- While much of the research that has tested the impact of a school-based curriculum on children's substance abuse is inconclusive, the best-designed experiment found that such curriculums had no significant effect on reducing drug abuse among youth.
- Evidence regarding smoking prevention programs suggests that the programs which work best are those that (1) teach children how to deal with social pressures that lead them to experiment with different substances and (2) incorporate a broad base of community support.

Notwithstanding these findings, research regarding prevention programs is generally inconclusive. It appears that the success of a particular program element is probably most dependent on the community in which it is implemented and the program design. To the extent this is so, counties can improve the effectiveness of their programs by adopting those design features that have been found to work under similar circumstances. The departments, however, have not provided counties with information on those types of programs which may be most successful in preventing drug abuse among youth. During our visits to S/CPPP's, we found that, for the most part, local programs operate without information on the effectiveness of different types of prevention programs. Many of these counties stated that they could benefit from having access to such information.

There are several forms of assistance that SDE and DADP could provide to the counties. For example, they could provide the counties with research findings and information about model programs. They could also offer counties a forum for sharing their own experiences, such as a statewide conference.

Because S/CPPPs may improve if local program administrators are provided with information about other successful programs, we recommend that the Legislature adopt supplemental report language which requires the departments to (1) facilitate information sharing among the counties beginning in 1986–87 and (2) submit a report to the Legislature by December 1, 1986, describing the types of assistance provided to counties. The following language is consistent with this recommendation:

"The Department of Alcohol and Drug Programs and the State Department of Education shall (1) facilitate information sharing among counties which participate in the School/Community Primary Prevention Programs (S/CPPPs) and (2) submit a report to the Legislature by December 1, 1986, which describes the types of assistance provided to the counties. This assistance may include providing counties with research findings regarding model programs, or providing counties with forums through which they can share their experiences in administering S/CPPPs."

Measures of the S/CPPP's Success Are Not Well-Defined

We recommend that the Legislature adopt supplemental report language which requires DADP to submit a report to the Legislature describing its efforts to develop comparable prevention program performance measures.

As we indicated above, DADP and SDE evaluate the performance of local programs using process measurements. For example, counties are required to provide the departments with information concerning how many people receive services, the number of materials produced, and the number of activities scheduled. Many of the measurements the state uses to evaluate local programs, however, are not well defined and do not lend themselves either to measuring individual program success or to facilitating comparisons among programs. For example:

- A "direct person served" can mean: (1) a child receiving an hour per week of classroom education for six months, (2) a person receiving a one-on-one counseling session or sessions, (3) a parent attending a single community meeting, or (4) a teacher attending an intensive three-day training session.
- An "indirect person served" is supposed to measure the number of people with whom a "direct person served" has contact. Based on our review, we conclude that these figures are simply a guess on the part of the person filling out the reporting form. Because these terms are not well defined, it is impossible to compare programs in order to determine if the state is "getting its money's worth."

We recognize that it is not unusual for prevention programs to lack comparable definitions of units of services. This is because the field is relatively new and comparable units of service have not been developed. In the past, the DADP has taken some steps to develop standard units of service, but its efforts have not been successful. As a result, it is impossible to compare performance among any prevention programs.

In order to improve the comparison of program performance, we recommend that the Legislature adopt supplemental report language which requires the DADP to report by December 1, 1986, regarding the steps it is taking to develop comparable prevention program performance measures. The following language is consistent with this recommendation:

"The Department of Alcohol and Drug Programs shall submit a report to the Legislature by December 1, 1986, describing the steps it is taking to develop comparable prevention program performance measures. This report should include, but not be limited to, steps being taken by the drug program, the alcohol program, and the Alcohol and Drug Program Administrators' Associations. The report should also identify steps being taken by other states to develop such performance measures."

DADP and SDE Should Change The Funding Requirements For The S/CPPP

We recommend that, prior to budget hearings, DADP and SDE provide the fiscal committees with a plan for improving the funding requirements for S/CPPP. Specifically, the plan should provide for the following: (1) a new competitive review of proposals submitted by counties, (2) county or school district matching requirements, and (3) county funding based on objective need standards.

Funds for the S/CPPP were awarded to counties for the first time in 1982. The DADP and SDE awarded the funds as a result of a competitive review of proposals submitted by counties. In general, the counties were required to include in their proposals a description of the types of services to be provided, a statement of goals and objectives, and a budget. Counties could request any amount of funding they deemed appropriate and were not required to provide a match to the state funds.

Since 1982, the departments have continued to fund the same programs and have not solicited competitive proposals. Moreover, the initial allocations of funds to several of the programs have been increased significantly.

We have the following concerns with the process used to allocate funds available for S/CPPPs:

- ***The absence of a competitive review process prevents counties whic' currently do not have S/CPPPs from applying for state funds.*** A number of other counties in the state have expressed an interest in receiving S/CPPP funding. There are at least 13 counties which responded to the department's request for proposal in 1982.
- ***Counties are not required to provide a local match in order to receive S/CPPP funding, even after the program has been established.*** Currently, counties receive either full funding for their S/CPPPs or no funding. Those counties receiving state aid are not required to contribute toward program costs. One way of enabling more counties to participate in the program would be to require participants to help support their S/CPPPs. This would allow the appropriation to go farther.

  It is logical to assume that the participants would be willing to provide a local match of the state grant. Presumably, in the absence of data documenting the effectiveness of S/CPPPs, the persons best able to evaluate the success of individual programs are those who are involved in running the programs on a day-to-day basis. If, after having had an opportunity to gauge the effectiveness of their own programs, these persons are unwilling to provide a local match, there is no apparent reason why the state should continue to fund the program at the expense of others.

  In fact, most programs provide significant in-kind matches through parent volunteers, or corporate support for activities. Our review indicates, however, that the schools and school districts in which S/CPPPs are implemented generally do not provide matching support to these programs. For example, the S/CPPP, not the school district, frequently pays for teacher time, curriculum materials, and substitutes while teachers are being trained. Because the S/CPPP is largely implemented in schools, we believe that school districts should provide some support for these local programs. If school administrators believe that S/CPPP works, they should be willing to contribute financially to its support. Generally, local school districts have the ability to support a portion of the costs of the S/CPPP through a reallocation of their baseline operating funds.

- ***The departments do not allocate funds to counties based on an objective measure of need, but rather on the basis of what counties tell the department they need to run their programs.*** As a result, per capita funding for these programs varies a great deal, and is not related to any objective measure of drug abuse in the county. The departments could allocate funds to counties based on a more objective assessment of need by using one of several different formulas. For example, funds could be allocated to counties using the current "50-30-10-10" formula that determines county drug program allocations. This formula allocates funds to counties for drug programs based on population (50 percent), poverty (30 percent), drug arrests (10 percent), and minority population (10 percent). Alternatively, the funds could be allocated on a per capita basis. In either case, the funds would be allocated based on an objective standard of need.

In light of these concerns, we recommend that, prior to budget hearings, DADP and SDE provide the fiscal committees with a plan for making specific changes in the funding of S/CPPPs. Specifically, this plan should do the following:

1. Require that a new request for proposal be issued so that those counties which do not receive S/CPPP funds have an opportunity to apply for such funds.
2. Require counties to provide annually an increasing local match for their S/CPPP funds from the schools or school districts which participate in the program. In addition, the plan should identify the extent to which such a match will free-up existing S/CPPP funds which can be made available to support new programs.
3. Identify the steps necessary to develop a formula for allocating funds to counties which have applied for S/CPPP grants based on an objective measurement of need.

Separate Prevention Programs Result in Coordination Problems and Duplication of Services

We recommend that the Legislature adopt supplemental report language which requires DADP, SDE, and the Office of Criminal Justice Planning (OCJP) to submit a plan to the Legislature by December 1, 1986, for coordinating drug prevention program funds.

There are a number of programs throughout the state that provide funding for drug prevention programs in schools. For example:

- Counties are required to spend 20 percent of their federal block grant funds on drug prevention activities. In 1985–86, at least $6.2 million will be spent on alcohol and drug prevention services. Some of these funds may be spent to prevent drug abuse among youth.
- Chapter 1306/85 (AB 2126), provides $450,000 from various funds in order to develop a year-round "positive role model" program for youth. The purpose of the program is to utilize celebrity athletes in order to prevent drug abuse among youth.
- The OCJP administers the Suppression of Drug Abuse in Schools (SDAS) program. The SDAS program has a slightly different focus from the S/CPPP program, in that SDAS is jointly administered by county offices of education and local law enforcement agencies. In

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

practice, however, S/CPPP and SDAS are quite similar at the local level—both programs attempt to prevent drug abuse among youth through the use of curriculum, peer and adult counseling, family and community groups, and a variety of other approaches. This program began in 1983–84. The 1985 Budget Act appropriated $1.9 million from the General Fund for this program.

Although there are a number of different funding sources available to counties to combat substance abuse in the schools, the state departments which administer these funds do not coordinate their allocation of funds to counties. The SDAS and S/CPPP are good examples of this. As a result, funding is concentrated in several counties while other counties receive no or few funds. Moreover, *within* counties funding is concentrated in certain areas, leaving other areas with relatively little funding. This results in duplication of services and inefficient use of funds.

For example, one county has received a $26,950 S/CPPP grant for the entire county for a 16-month period. At the same time one high school within the same county has received a SDAS grant for $68,786 per year. Additionally, another county has a S/CPPP grant for $31,239 for a 16-month period. One city and one school district within that county have SDAS grants amounting to $229,000 for an 18-month period. In fact, almost every county that has a S/CPPP grant also has a SDAS grant, which leaves quite a few counties completely unfunded. Coordinated efforts within counties and communities would improve the overall impact of prevention in the community, as well as make funds available for other counties which currently do not receive funding.

In order to maximize available funds, we recommend that the Legislature adopt supplemental report language which requires DADP, SDE, and OCJP to submit a report describing how they will ensure better coordination of all funds earmarked for drug prevention activities among youth. This plan could involve redistributing funds among counties or targeting future prevention funding among counties, taking into account existing prevention funding in those counties. This report should also discuss how DADP and SDE take other sources of prevention funding into account when granting S/CPPP funds to counties.

The following language is consistent with this recommendation:

"In order to better coordinate prevention funding among counties, the Department of Alcohol and Drug Programs, the State Department of Education, and the Office of Criminal Justice Planning shall submit a report by December 1, 1986, which describes a plan for ensuring better coordination of all funds earmarked for drug abuse prevention among youth. The plan shall include, but not be limited to, a discussion of redistributing funds among counties or targeting future prevention funding among counties, taking into account already existing prevention funding. The Department of Alcohol and Drug Programs and the State Department of Education should include in this report how they take into account other prevention funds within counties during the S/CPPP allocation process."

OTHER DEPARTMENTAL BUDGET ISSUES

Impact of Single Audit Act on Departmental Workload Is Unclear

We recommend that the Legislature (1) restore 9.5 positions in the Financial Management and Audit Section on a limited-term basis and (2) adopt supplemental report language which requires DADP to submit a

report by December 1, 1986, documenting changes in the audit program's workload resulting from implementation of the Single Audit Act (SAA) of 1984. (Increase Item 4200-001-001 by $157,000; Increase Item 4200-001-890 by $59,000; Increase reimbursements by $31,000; Reduce Item 4200-101-001 by $157,000; and Reduce Item 4200-101-890 by $59,000.)

The federal Single Audit Act (SAA) of 1984 establishes uniform audit requirements for state and local governments which receive federal financial assistance. Under the SAA, local governments and service providers that receive more than $25,000 in federal funds are required to contract for a single financial and compliance audit covering the expenditure of *all* funds received from the federal government. Accordingly, state agencies, like DADP, which pass through these federal funds and which have performed these financial and compliance audits in the past, would no longer do so in the future. The state, however, is still ultimately responsible for ensuring that county and service providers comply with the federal auditing requirements.

In order to implement the new federal audit requirements, the department proposes to eliminate 9.5 audit staff in the budget year—approximately 36 percent of the staff in the Financial Management and Audit Services Section. The department also proposes to contract out audits of expenditures involving potential fraud and abuse of state and federal funds.

The department estimates that its proposal will free up $247,000 for other uses. Specifically, the department proposes to redirect $216,000 of the savings to counties to support local alcohol and drug programs and use $30,000 to purchase five personal computers for the remaining audit staff within the department.

Enactment of legislation is necessary in order to implement the SAA as the department proposes.

The DADP advises that the remaining audit staff would:

- Review approximately 1,078 annual audits of county and provider programs.
- Monitor the progress of counties and independent auditors in implementing the SAA.
- Provide compliance guidelines to county and independent auditors.
- Provide follow-up on audit findings and corrective action plans.
- Provide limited audit assistance to county auditors and public accountants.

The DADP staff would continue to perform internal audits of the department and maintain the audit appeal function until all outstanding disputed issues are resolved.

We believe that it is premature for the department to eliminate 9.5 audit positions as a result of implementing the SAA.

The department could not provide us with any workload data substantiating the proposed reduction in audit staff. The department acknowledges that the proposed reduction of 9.5 positions is a "best guess" of the number of positions which will no longer be needed as a result of implementing the SAA. Our review indicates that because local governments have not yet begun doing single audits on a widespread basis, it is impossible to estimate what state staffing levels will be required to ensure that local agencies are complying with the federal regulations.

Moreover, the state's three major audit agencies—the State Controller,

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

the Department of Finance, and the Auditor General—have indicated that the state should not reduce its audit coverage while the SAA is being implemented. The State Controller stated in a March 1985 report, that "no elimination of current audit coverage should take place until we have assurances that the local entities are performing single audits and there is adequate audit coverage to meet the state's fiscal responsibilities." This is because the state must ensure that counties and local program providers are meeting the federal auditing requirements in two ways: (1) if an audit finds that a local entity is not complying with federal regulations, the state must ensure that action is taken to correct the problem, possibly involving extra audits and (2) if a county or local provider does not perform a single audit of all federal funds, the state is responsible for determining whether or not that entity is conforming to federal law.

We believe that implementation of the SAA eventually will result in some change in the department's audit workload. We do not believe, however, that it is prudent for DADP to reduce its audit staff until it has gained some experience in implementing the SAA. For these reasons, we recommend that the Legislature (1) reject the department's proposal and restore the 9.5 positions on a limited-term basis through June 30, 1987, and (2) adopt supplemental report language which requires the DADP to submit a report to the Legislature by December 1, 1986, documenting changes in the department's audit workload as a result of implementing the SAA.

The following language is consistent with our recommendation:

"The Department of Alcohol and Drug Programs shall submit a report to the Legislature by December 1, 1986, which documents changes in its audit workload as a result of the Single Audit Act. If appropriate, the report shall include recommendations regarding changes in the staffing level of the Financial Management and Audit Section based on these changes in workload."

Third Party Payments are a Funding Source for Local Programs

We recommend that, prior to budget hearings, the department submit to the fiscal committees information regarding the impact of eliminating its resource and economic development position.

The Resource and Economic Development Program (REDP) within the department plans, organizes, and implements strategies aimed at reducing the dependence of public sector alcohol programs on government funding. Currently, the department has one position performing these activities. In general, this position assists counties and service providers in developing third-party payments. Third-party payments are payments to programs by insurance companies on behalf of insured individuals receiving services from the program. Therefore, these payments supplant public funding.

The department proposes to eliminate this position in 1986–87 because it believes that the position has not been effective in stimulating third-party payments. The department believes that (1) the success of the program is dependent upon highly motivated providers, not the department's involvement and (2) local providers lack the motivation to seek third-party payments because state and federal funds provide them with a stable funding source.

We have two problems with the department's proposal. First, the department could not provide us with information documenting the ineffectiveness of the third-party payment program. In fact, our review indicates that counties have been receiving a significant amount of third-party payments, some of which may be attributable to the activities of the department. Specifically, in 1983–84 county alcohol programs received approximately $384,000 in third-party payments, and in 1984–85 they received approximately $233,000. While these amounts are small when compared to the total federal and state funds provided to counties, they are approximately 10 times greater than the cost of the position the department is proposing to eliminate. Second, the department could not document its claim that elimination of this activity will have minimal impact on the counties and program providers.

For these reasons, we cannot adequately assess the department's proposal for 1986–87. Therefore, we recommend that, prior to budget hearings, the department submit to the fiscal committees information documenting (1) its assertion that the position has not been effective in stimulating third-party payments and (2) that eliminating this position will have minimal impact on the counties and program providers.

Audit Repayment Trust Funds Are Available to Support Local Programs

We recommend that, prior to budget hearings, the DADP advise the fiscal committees how it plans to use funds in the Audit Repayment Trust Fund.

Chapters 1328 and 1329, Statutes of 1984 (AB 3872 and AB 3873), established the Audit Repayment Trust Fund within the State Treasury. The purpose of the fund is to receive repayments of funds from counties and local providers due to audit exceptions. The funds can only be allocated by the DADP pursuant to an appropriation by the Legislature.

Although there is approximately $63,000 in this fund, the DADP has not requested that the money be appropriated nor has it indicated how it would use these funds if they were made available by the Legislature.

Because these funds could be used to support local drug or alcohol programs, we recommend that, prior to budget hearings, the department advise the fiscal committees what it proposes to do with these funds.

Methadone Licensing Fund Reserve is Too High

We recommend that, prior to budget hearings, the department advise the fiscal committees what its plans are for reducing the reserve in the Methadone Licensing Trust Fund.

State law requires DADP to license all methadone programs in the state and monitor the compliance of the programs with state regulations. State law also requires the department to charge sufficient fees to methadone programs to offset its monitoring costs. In order to comply with these requirements, the department charges an annual license fee to private for-profit methadone programs. These fees are deposited in the Methadone Program Licensing Trust Fund.

State law limits the amount of reserve in the fund to 10 percent of the total licensure fees collected during the preceding fiscal year. Moreover, it requires the department to annually rebate to licensees funds which exceed this limit.

In the current year, the department is maintaining a reserve of $155,000, which is equal to 66 percent of the fees it collected in the preceding year. In the budget year, the department proposes to maintain a reserve of $116,000, which is equal to 46 percent of the fees it anticipates collecting in the current year.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

The proposed reserves are far in excess of the 10 percent maximum set in current law. For this reason, we recommend that, prior to budget hearings, the department advise the fiscal committees on how it plans to reduce this reserve in the budget year.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—REVERSION

Item 4200-495 to the General Fund — Budget p. HW 27

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The Budget Act of 1976 appropriated $1 million to establish research centers to study the primary biomedical or social causes of alcoholism. The Department of Alcohol and Drug Programs contracted with the University of California, Los Angeles to perform this research from September 1977 to April 1983. At the end of the contract period, $7,168 of the $1 million had not been spent. We recommend that this amount be reverted to the General Fund.

Health and Welfare Agency

CHILD DEVELOPMENT PROGRAMS ADVISORY COMMITTEE

Item 4220 from the General Fund — Budget p. HW 34

Requested 1986–87	$182,000
Estimated 1985–86	171,000
Actual 1984–85	144,000
Requested increase $11,000 (+6.4 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

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

The 25-member committee consists of representatives from various state agencies, public members (representing private education, health care, child welfare, child care, and community action interests), and parents of children served by child care progams. The committee is staffed with an executive secretary, an analyst, and clerical support, for a total of 3.3 authorized positions in the curent year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes a General Fund appropriation of $182,000 for the support of the Child Development Programs Advisory Committee in 1986–87. This amount is $11,000, or 6.4 percent, more than current-year total expenditures.

The proposed increase in the committee's expenditures would fund (1) the reclassification of the executive secretary position and (2) salary and benefit increases called for by the memorandum of understanding agreed to in 1985.

Table 1 displays funding for the committee for the prior, current, and budget years.

Table 1
Child Development Programs Advisory Committee Funding
1984–85 through 1986–87
(dollars in thousands)

	Actual 1984–85	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change from 1985–86*
General Fund	$144	$171	$182	6.4%
Federal funds	58	—	—	—
Totals	$202	$171	$182	6.4%
Personnel-years	3.8	3.3	3.3	—

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The amount requested would provide an appropriate level of support for the committee's activities in 1986–87. Accordingly, we recommend approval of $182,000 in General Fund support for the committee.

Child Care Task Force Results Are Disappointing

In 1984, the Legislature passed SB 1718 (Hart) which would have provided $100 million for child care services to school-age children. The Governor vetoed this legislation, but noted in his veto message the need for a comprehensive review of all child care programs in the state. Subsequently, the Governor issued Executive Order D 38-84 which established the Child Care Task Force. The task force was charged with (1) reviewing statewide child care availability and usage patterns and (2) evaluating cost-effective alternatives to meet child care needs in California. The results of the task force's efforts were submitted in a report to the Governor on March 31, 1985. The preparation of this report cost $100,000 (paid for from the Health and Welfare Agency budget), of which $88,000 was expended on a survey by the Gallup organization to assess child care availability and usage patterns.

Several of the task force's recommendations related specifically to the operations of the Child Development Programs Advisory committee. These recommendations are as follows:

- The role of the Child Development Programs Advisory Committee should be officially expanded to encompass oversight and coordination of all child care programs statewide.

CHILD DEVELOPMENT PROGRAMS ADVISORY COMMITTEE—Continued

- Oversight and coordination should include, but not be limited to (1) development of a long-range plan for child care, (2) independent review of the programmatic and administrative issues of child care programs in the State Department of Education (SDE), and (3) development of the state/local processes to allocate monies from a proposed new state fund—the Child Care Fund.
- Additional funding to reflect the Advisory Committee's expanded role should be allocated.

Although the task force recommended expansion of the committee's role in oversight and coordination, its report did not document any specific problems in these areas. Nor did it specify the number of new staff or the amount of additional funding that it believes is warranted for the committee.

In addition to those recommendations relating to the Advisory Committee, the Task Force report made two recommendations regarding the manner in which child care services are provided in California:

- The state should establish a Child Care Fund, with "new money," to be available to local communities for planning and implementing local child care services. Access to the funds would be based on local needs assessments and feasibility studies, which, according to the Task Force, "would encourage a public-private sector partnership to identify resources and methods to meet the local child care needs."
- "An independent review of both the administrative and programmatic aspects of SDE's child care programs should immediately be undertaken to determine the cost-effectiveness and efficiency of service delivery and program administration."

Here again, the task force's recommendations generally were not supported by any specific findings in the report. For example, the task force did not specify (1) the amount of additional funding required for the proposed Child Care Fund, or (2) the types of programs that would be offered with this funding. Nor did the report describe how establishment of a new funding source would encourage "public-private sector partnerships."

With respect to the administration of child care programs, the task force provided no evidence that the current structure is not cost-effective or efficient. Instead, it based its recommendation for an independent review on a cost comparison of two funding mechanisms: the Alternative Payment program—a "voucher" system which provides basic child care services—and the standard reimbursement rate for all other child development programs administered by SDE. Because the latter programs, which provide *additional* services beyond basic child care, tend to be more expensive per child, the task force concluded that they must be inefficiently administered.

Finally, although the task force was charged with the responsibility of evaluating cost-effective alternatives for providing child care services in the state, its report failed to provide such an evaluation.

In sum, we do not find the task force's report to be helpful in shedding more light on the availability and effectiveness of child care services. It would appear that the Governor has reached a similar conclusion since the 1986–87 budget does not reflect any of the recommendations made by his task force.

Health and Welfare Agency
DEPARTMENT OF HEALTH SERVICES

Item 4260 from the General Fund and various funds — Budget p. HW 35

Requested 1986–87	$3,708,524,000
Estimated 1985–86	3,695,929,000
Actual 1984–85	3,270,087,000
Requested increase $12,595,000 (+0.3 percent)	
Total recommended reduction	$12,417,000
Recommendation pending	$2,495,768,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4260-001-001—Department support	General	$124,649,000
4260-001-014—Department support	Hazardous Waste Control	24,032,000
4260-001-044—Department support	State Transportation	323,000
4260-001-203—Department support	Genetic Disease Testing	18,135,000
4260-001-335—Department support	Sanitarian Registration	98,000
4260-001-455—Department support	Hazardous Substances	9,525,000
4260-001-490—Department support	Hazardous Waste Injection Well	120,000
4260-001-710—Department support	Hazardous Substance Clean-up	5,820,000
4260-001-900—Department support	Local Health Capital Expenditures	168,000
4260-020-445—Department support	Hazardous Substance	942,000
4260-101-001—Medi-Cal local assistance	General	2,311,861,000
4260-101-036—Medi-Cal local assistance	Special Account for Capital Outlay	18,902,000
4260-105-001—Medi-Cal abortions	General	13,137,000
4260-106-001—Medi-Cal cost-of-living adjustments (COLAs)	General	12,100,000
4260-111-001—Public health local assistance	General	1,104,449,000
4260-116-001—Public health COLAs	General	16,108,000
Health and Safety Code §25330.5	Hazardous Waste Operations and Maintenance	55,000
Welfare and Institutions Code §16707	County Health Services	2,200,000
Ch 1594/82	General	1,819,000
Ch 376/84	General	5,000,000
Ch 23/85	General	4,600,000
—Reimbursements		33,661,000
—Family repayments		820,000
Subtotal		$3,708,524,000
4260-001-890—Department support	Federal	($97,348,000)
4260-005-890—Department support	Federal	(193,263,000)
4260-006-890—Department support	Federal	(32,605,000)
4260-101-001—Provision 1	County	(2,500,000)
4260-101-890—Medi-Cal local assistance	Federal	(2,455,211,000)
4260-106-890—Medi-Cal COLAs	Federal	(12,101,000)
4260-111-890—Public health local assistance	Federal	(23,460,000)
Ch 1440/85	Federal	(650,000)
Total		($6,525,662,000)

DEPARTMENT OF HEALTH SERVICES—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

Departmental Administration

1. Administration Division Proposals. Withhold recommendation on reductions of $2,501,000 ($497,000 General Fund), pending the receipt of additional information. 664
2. Budget Schedule Changes. Recommend adoption of suplemental report language requiring additional changes in the budget schedules. 665
3. Operating Expenses and Equipment. Withhold recommendation on $140 million requested for operating expenses and equipment, pending the receipt of additional information. 665
4. Salary Savings Increase. Recommend that the Departments of Finance and Health Services report on the reasons for increased salary savings and explain how the higher rate will be achieved. 666

Licensing and Certification

5. Survey Backlogs. Recommend that the department explain during budget hearings how it intends to reduce backlogs in licensing and certification activities. 669
6. Licensing Fees. Withhold recommendation on licensing and certification fees, pending receipt of a fee schedule. 670
7. ***New Workload. Reduce Item 4260-001-001 by $14,000 and Item 4260-001-890 by $37,000.*** Recommend deletion of $51,000 and 2.7 positions in Medi-Cal field offices that are not jusitified by workload. 671
8. ***Reduced Licensing Visits. Augment Item 4260-001-001 by $175,000 and Item 4260-001-890 by $354,000.*** Recommend augmentation of $529,000 and 8.5 positions to maintain current licensing visitations schedule because the department does not know what the effect would be of the proposed reduction in visits. 672
9. ***Licensing Staffing Standards. Reduce Item 4260-001-001 by $291,000 and Item 4260-001-890 by $591,000.*** Recommend reduction of $882,000 and 8.5 licensing positions because the department's staffing standards may be too high. Further recommend adoption of supplemental report language requiring a study of the staffing standards. 673
10. Nurse Certification Contract. Recommend restoration of 2 positions that are proposed for elimination in favor of contracting-out. 674
11. Demonstration Program. Recommend that the department explain how it intends to fund the second year of a demonstration program for chronically and terminally ill children. 674

Public Health

12. Transfer of Certification Responsibility. Recommend that the Legislature restore one position because contracting for public health nursing certifications would not result in any identifiable benefits. 681
13. California Children's Services (CCS) Budget Estimates. Recommend the department explain how it intends to increase the accuracy of CCS budget estimates. 682
14. ***County Health Services Population Adjustments. Reduce Item 4260-111-001 by $3,500,000.*** Recommend reduction because the budget overestimates the population increase funding adjustment for the AB 8 program. 683
15. ***Maternal and Child Health. Reduce Item 4260-111-001 by $111,000. Increase Item 4260-111-890 by $611,000.*** Recommend reduction because federal funds will be available to substitute for General Fund support. 684
16. Medically Indigent Services (MIS) Reporting System. Recommend the department submit a legislatively mandated report that includes (a) a discussion of system goals and objectives, (b) cost estimates and implementation information, and (c) a discussion of alternative MIS reporting systems. 684
17. Acquired Immune Deficiency Snydrome (AIDS) Budget. Recommend the department provide the Legislature with information regarding:
    a. Use of proposed augmentations for surveillance activities. 688
    b. Expenditure plans for AIDS demonstration and research projects. 690
    c. Reasons for (1) delays in letting information and education contracts and (2) diversion of $481,000 appropriated for AIDS information and education to other activities. 691
    d. Reasons for delays in implementation of sole source contracts for AIDS research and assistance to local AIDS programs. 693
    e. Plans to increase participation in and assure accessibility to local AIDS alternative test site programs. 694
    f. Problems in hiring AIDS staff. 696
18. ***Birth Defects Monitoring. Reduce Item 4260-001-001 by $392,000.*** Recommend reduction because statutory appropriations are available for operation of this program in the budget year. 697
19. ***Birth Defects Monitoring Expansion. Reduce Item 4260-001-001 by $392,000.*** Recommend reduction to correct budgeting errors. 698
20. Cancer Registry Plans. Withhold recommendation on $1,015,000, pending receipt of the required implementation and expenditure plan. 699
21. ***Birth Defects Monitoring and Cancer Registry. Reduce Item 4260-001-001 by $307,000.*** Recommend reduction to reflect savings achieved by hiring state staff rather than contracting for services. 699
22. ***Pneumoccal Vaccine Purchase. Reduce Item 4260-001-001*** 701

DEPARTMENT OF HEALTH SERVICES—Continued

by $98,000. Recommend reduction because funds will not be needed until 1987–88.

23. Polio Vaccine Purchase. Withhold recommendation on $550,000 pending submission of additional information. 701
24. Transfer of Outer Continental Shelf Funds. Recommend adoption of Budget Act language requiring $276,000 to revert to the Federal Trust Fund. 702
25. ***Children's Dental Disease Prevention Program. Reduce Item 4260-001-001 by $804,000.*** Recommend reduction to reflect the program's statutory sunset date. 703
26. Pesticide Residue Report. Recommend that the department submit (1) a proposal for testing processed foods for chemical residues and (2) budget and implementation schedules for the proposal. 703
27. ***Certification of Hazardous Waste Laboratories. Reduce Item 4260-001-014 by $194,000.*** Recommend reduction because staffing is not needed. 703

Toxic Substances Control

28. State Responsibility for Sites. Recommend the department advise the Legislature of (1) Environmental Protection Agency's planned schedule for cleaning up hazardous waste sites in California and (2) the department's plans to turn over to the federal government responsibility for cleanup at sites on the national priority list. 707
29. Responsible-Party Policy. Recommend enactment of legislation reversing the department's policy of exempting responsible parties from future liability at hazardous waste sites that are cleaned to levels established by the department. 708
30. Alternatives to Land Disposal. Recommend that the department submit to the Legislature its plan for stimulating development of alternative waste disposal techniques. 709
31. Federal Evaluation of State Permitting System. Recommend that prior to budget hearings, the department prepare a report to the Legislature outlining (1) federal government's assessment of the state's performance, (2) whether EPA needs more time to evaluate the state's performance, and (3) when EPA will grant the state authority to administer the Resource Conservation and Recovery Act. 710
32. Toxics Permitting and Inspection Workload. Withhold recommendation on $3,700,000 and 96.3 positions, pending submission of joint plan with Water Resources Control Board outlining agency responsibilities, workload, and staffing for regulating hazardous waste disposal pits. 713
33. Toxics Fee Collections. Recommend the department report to the fiscal committee on (1) the effective date of emergency regulations increasing disposal fees, (2) its revised estimate of fee revenues for 1985–86, (3) reasons for reduced volumns of waste disposed during 1985–86, and (4) potential increase in disposal during 1986–87. 716
34. Toxics Division Budget. Withhold recommendation on 719

$32,291,000, pending completion of a study on appropriate funding sources for the division's activities.

35. Bond Act Fund Expenditure Plan. Withhold recommendation on $5,830,000, pending receipt of department's revised expenditure plan for site cleanup activities in 1986–87. 720
36. Funding Shortfall in Hazardous Waste Cleanup Program. Recommend the department submit a preliminary estimate of administrative expenses and potential sources of funding for 1987–88. 720
37. ***Up-Front Payment for Responsible-Party Expenses. Reduce Item 4260-001-455 by $346,000.*** Recommend Toxics Division seek responsible-party payment prior to initiating monitoring or arbitration activities. 721
38. Abandoned Site Program. Recommend that the Legislature fund the program from Hazardous Substance Account rather than the Hazardous Waste Control Account. Further recommend that the department (1) explain why program should not operate like the previous survey program and (2) provide a revised implementation schedule for searches. 722
39. Industry Education Program. Recommend the department advise the Legislature of its plans and priorities for operating the program. 724
40. ***Eliminate Investigator Support. Reduce Item 4260-001-014 by $410,000.*** Recommend reduction because department no longer plans to use departmental investigators to enforce state hazardous waste control laws. 724

Medi-Cal Program

41. May Estimates. Withhold recommendation on $4.8 billion ($2.4 billion General Fund) requested for Medi-Cal program, pending review of revised estimates in May. 730
42. Medi-Cal Estimates. Recommend that the Department of Finance explain how it expects to achieve $233.2 million in budgeted savings. 730
43. Expanded Choice. Withhold recommendation on position changes and contract funds proposed for the Expanded Choice program, pending receipt of revised estimates in May. 736
44. AB 180/SB 53 Certifications. Recommend the department report on the feasibility of changes in the AB 180/SB 53 wage pass-through certification worksheets. 746
45. ***State Hospital Costs. Recommend transfer of $6,336,000 from Item 4260-101-001 to Item 4260-106-001 and $6,336,000 from Item 4260-101-890 to Item 4260-106-890.*** Recommend transfer of excess funds budgeted for state hospitals to pay for long-term care rate increases. 746
46. Long-Term Care Cost of Living Adjustments (COLAs). Recommend that the Department of Finance include an estimate of the cost of long-term care rate increases in the May revision. 747
47. ***ICF/DD-H Rate Increase. Reduce Item 4260-101-001 by $1,241,000 and Item 4260-101-890 by $1,241,000.*** Recom- 747

DEPARTMENT OF HEALTH SERVICES—Continued

mend denial of a rate increase for Intermediate Care Facilities for the Developmentally Disabled—Habilitative because the increase is not justified.

48. ICF/DD-N Costs. Recommend that the Department of Finance explain how it expects to fund the cost of Intermediate Care Facilities for the Developmentally Disabled —Nursing. 749
49. Caseloads Estimates. Recommend that the Department of Finance explain the differences in caseload estimates for refugees and SSI/SSP recipients made by the Departments of Social Services and Health Services. 749
50. Adult Day Health Care Rate Study. Recommend that the department report (1) the reasons for the delay in submitting an Adult Day Health Care rate methodology and (2) the steps it is taking to insure the timely establishment of these rates. 750
51. Asset Clearance Match. Recommend that the department report on savings from the asset clearance program, including the medically needy cases. 750
52. Retroactive Federal Funds. Recommend that the Department of Finance report on the potential for securing federal funds for state hospital costs on a retroactive basis. 751
53. ***Prepaid Health Plans. Reduce Item 4260-101-001 by $2,350,000 and Item 4260-101-890 by $2,350,000.*** Recommend adoption of Budget Bill language directing a revision in prepaid health plan for a total savings of $4.7 million. 751
54. ***Technical Errors. Reduce Item 4260-101-001 by $103,000, 4260-101-036 by $663,000, and Item 4260-101-890 by $766,000.*** Recommend reduction to correct for technical errors made in calculating funding needs for prepaid health plans. 752
55. ***County Administration Productivity Standards. Reduce Item 4260-101-001 by $1.4 million.*** Reduce amount budgeted for county administration to reflect increases in productivity. 754
56. ***San Diego Dual Choice. Reduce Item 4260-101-001 by $168,000 and Item 4260-101-890 by $168,000.*** Recommend reduction in funding for dual choice presentations in San Diego County because these funds will not be needed. 754
57. Greater Avenues of Independence. Withhold recommendation on costs due to Greater Avenues for Independence, pending review of the May revision. 754
58. ***Expanded Choice Program. Reduce Item 4260-101-001 by $44,000 and Item 4260-101-890 by $132,000.*** Recommend reduction in checkwriting and postage costs to reflect savings resulting from Expanded Choice program. 759
59. ***Change Orders. Reduce Item 4260-101-001 by $190,000 and Item 4260-101-890 by $316,000.*** Recommend reduction in support budgeted for unidentified changes in the Medi-Cal claims processing system. 759
60. Statewide Automated Welfare Systems. Withhold recommendation on funds and position changes pending review of the annual progress report. 761

61. Permanent Staffing Level. Recommend that the Department of Finance indicate whether it intends to propose a permanent staffing level for the Fiscal Intermediary Management Division. 762
62. Medi-Cal Field Office Improvements. Recommend the Department of Finance report on changes needed to implement task force recommendations on improved efficiency. 762
63. Recovery Branch Automation. Withhold recommendation on $405,000 ($202,000 General Fund) and reduction of 13.5 positions, pending the receipt of details for an automation proposal. 763
64. Third-Party Recovery System. Withhold recommendation on $5 million ($500,000 General Fund) for an improved Medi-Cal system for recovering funds from liable third parties, pending receipt of details on the proposal. 763
65. Preadmission Screening. Recommend the department report on plans to implement preadmission screening state-wide in order to prevent unnecessary placement of elderly in nursing homes. 764

Audits and Investigations

66. Financial Auditor Positions. Withhold recommendation on reduction of $324,000 and 9 positions, pending receipt of information on pilot hospital audits. 767
67. ***AB 8 Audits. Appropriate $388,000 in Item 4260-001-810.*** Recommend a $388,000 augmentation from County Health Financing Authority funds to support further audits. Further recommend the department explain why no action has been taken to (1) recover AB 8 funds identified in past audits and (2) complete suspended audits. 768
68. Provider Utilization Review. Recommend the department report on the advisibility of expanding "special claims review," and using "abbreviated utilization review programs." 771
69. Pharmacy Audits. Recommend that the department present a plan for more effective pharmacy audits. 772
70. ***Beneficiary Utilization Review. Augment Item 4260-001-001 by $7,500 and Item 4260-001-890 by $7,500.*** Recommend augmentation to provide a computer for improved monitoring of Medi-Cal beneficiaries' use of services. 772
71. Toxic Investigations. Recommend that the department explain why it terminated criminal toxic investigations. 774
72. Asset Clearance Match. Recommend that the department report on the feasibility of using asset clearance match for medically needy Medi-Cal beneficiaries. 775
73. Regional Reorganization. Recommend that the department report its reasons for combining the management of the division's two southern regions. 776
74. ***Medical Review Contract. Augment Item 4260-001-890 by $44,000.*** Recommend restoration of two positions and $44,000 that would be deleted in favor of contracting for medical consultants and duplicating. 776

DEPARTMENT OF HEALTH SERVICES—Continued

Department of Health Services
Table of Contents

GENERAL PROGRAM STATEMENT

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

The department has 4,193 authorized positions in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $6,525,662,000 from all funds for support of Department of Health Services programs in 1986–87. This is an increase of $102,409,000, or 1.6 percent, above estimated current-year expenditures.

Table 1 shows the proposed budget, by program category, for 1986–87 and the two previous years.

The largest budget changes proposed for 1986–87 are (1) an increase in Medi-Cal local assistance of $162 million and (2) a decrease of $91.7 million in state support reflecting allocation of Hazardous Substance Cleanup Bond Act funds in the current year.

Table 1
Department of Health Services
Expenditures and Funding Sources
1984–85 through 1986–87
(dollars in thousands)

Program	Actual[a] 1984–85	Est. 1985–86	Prop. 1986–87	Change From 1985–86 Amount	Change From 1985–86 Percent
State operations	$248,240	$392,537	$300,860	−$91,677	−23.4%
Special projects	159,882	209,619	227,912	18,293	8.7
Public health local assistance	1,003,217	1,135,115	1,148,856	13,741	1.2
Medi-Cal local assistance	4,375,206	4,685,982	4,848,034	162,052	3.5
Totals	$5,786,545	$6,423,253	$6,525,662	$102,409	1.6%
Funding source					
General Fund	$3,076,815	$3,507,376	$3,586,904	$79,528	2.3%
Federal funds	2,516,458	2,727,324	2,817,138	89,814	3.3
Hazardous Substance Cleanup (Bond)	—	94,169	5,820	−88,349	−93.8
Hazardous Substance Account	16,303	18,412	15,467	−2,945	−16.0
Hazardous Waste Control Account	12,340	8,230	24,032	15,802	192.0
Genetic Disease Testing Fund	10,229	18,003	18,135	132	0.7
Special Account for Capital Outlay	—	5,000	18,902	13,902	278.0
County Health Services	2,317	2,200	2,200	—	—
Local Health Capital Expenditure Account	2,689	6,245	168	−6,077	−97.3
Reimbursements	147,769	33,740	33,661	−79	−0.2
Other funds	1,625	2,554	3,235	681	26.7

[a] The amounts shown here for 1984–85 Medi-Cal expenditures are those reported in the Governor's Budget, but they are not accurate. The department has been unable to provide the correct amount.

ANALYSIS AND RECOMMENDATIONS

1. DEPARTMENT SUPPORT

The budget proposes expenditures for department support of $300,860,000 (all funds) in 1986–87. These expenditures account for 3.8 percent of the department's budget.

The department proposes to support 4,170 positions in the budget year (excluding those assigned to special projects), a decrease of 22.3 positions from the number of positions authorized for the current year. Table 2 shows the positions and expenditures proposed for department support, by major program category. The largest increase in positions is proposed for toxic substances control activities. The largest increase in total support expenditures is proposed for Medi-Cal.

The budget includes $1,700,000 for merit salary increases but no funds for inflation adjustments for operating expenses and equipment. We have no estimate of what these adjustments will cost.

Table 3 illustrates the main components of the increases proposed in the department's support budget for 1986–87, excluding special projects. The request for 1986–87 is 16.2 percent above the amount appropriated in the 1985 Budget Act, but 22.3 percent less than revised 1985–86 costs, which reflect substantial one-time expenditures of hazardous substance clean-up bond funds.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 2
Department of Health Services
Positions and Expenditures
1984–85 through 1986–87
(dollars in thousands)

	Actual 1984–85	*Est. 1985–86*	*Prop. 1986–87*	*Change From 1985–86 Amount*	*Change From 1985–86 Percent*
Expenditures					
Public health	$70,344	$106,538	$105,332	–$1,206	–1.1%
Toxic substances control	31,687	140,879	37,256	–103,623	–73.6
Medical assistance	56,025	55,390	64,556	9,166	16.5
Licensing and certification	14,440	17,986	18,349	363	2.0
Audits and investigations	18,209	19,123	19,198	75	0.4
Administration and Director's office	57,535	52,621	56,169	3,548	6.7
Totals	$248,240	$392,537	$300,860	–$91,677	–23.4%
Positions					
Public health	1,126.2	1,407.0	1,381.3	–25.7	–1.8%
Toxic substances control	211.0	336.5	425.0	88.5	26.3
Medical assistance	918.1	985.7	948.5	–37.2	–3.8
Licensing and certification	189.6	254.4	261.4	7.0	2.8
Audits and investigations	398.9	450.8	428.8	–22.0	–4.9
Administration and Director's office	875.5	758.6	725.7	–32.9	–4.3
Totals	3,719.3 [a]	4,193.0 [b]	4,170.7 [b]	–22.3	–0.5%

[a] 1984–85 amounts represent personnel-years.
[b] Excludes partial-year adjustments shown in the budget.

Table 3
Department of Health Services
Department Support
Proposed 1986–87 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1985–86 expenditures (Budget Act)	$111,945	$258,923
Baseline adjustments:		
1. Increase in existing personnel costs:		
Salary and benefit increase	8,718	17,013
2. Increase in operating expense and equipment:		
Postage	85	415
3. One-time adjustments		
a. Expiration of limited-term positions	–325	–1,224
b. Elimination of funds for private well monitoring	–553	–553
c. Elimination of contract funds for Fairchild study	–731	–731
d. Elimination of contract funds for establishment of drinking water standards	–3,542	–3,542
e. Expansion of Birth Defects Monitoring program	1,766	1,766
f. Reductions in support costs paid from special funds	–40	–501
g. Increase in support costs paid from federal funds	—	1,000
h. Reduction in contract funds available for toxic site cleanups	—	–782
i. Increased federal funds for interagency agreements	—	2,630
j. Reduction of federal matching funds associated with current-year support reductions	—	–1,570
k. Reduction in contract funds available for site cleanup	—	–501
l. Adjustments to AIDS program base funding	1,700	1,700
m. Reduction in Board of Control fee collection costs	—	–268
n. Hazardous site cleanup bond repayment, Ch 376/84 (SB 1465)	—	5,000
o. Decrease in estimated federal fund refugee reimbursements	568	—
p. Increase in site operation and maintenance fund	—	55

q. Continuation funding for AIDS alternative test site, Ch 23/85 (AB 488)	4,600	4,600
r. Continuation funding for a study on marine pollution, Ch 1440/85 (AB 1024)	—	650
s. All other changes	123	—
Budget Change proposals:		
1. Administration	−93	1,547
2. Audits and investigations	−291	−704
3. Licensing and certification	293	888
4. Public health	3,166	3,869
5. Medical assistance	1,860	6,637
6. Toxic substances control	—	4,543
1986–87 expenditures (proposed)	$129,249	$300,860
Change from 1985–86:		
Amount	$17,304	$41,937
Percent	15.5%	16.2%

Table 4 shows the position changes which the budget proposes for 1986–87. Of the 180.2 new positions funded in the budget, 94.5 positions, or 61 percent, are proposed for various toxic substances control activities. Of the 149.3 positions proposed for reductions (1) 52 percent take account of identified workload decreases and administrative efficiencies, (2) 34 percent are due to contracting proposals, and (3) 14 percent are due to automation.

Table 4

Department of Health Services

Proposed Position Augmentations and Reductions [a]

1986–87

		Position Reductions				
	Position Augmentations	*Efficiencies and Workload*	*Automation Proposals*	*Contract Proposals*	*Excess Manager/ Staff Ratio*	*Total Reductions*
Executive and Administration	3.8	−10.0	−6.0	−11.0	−1.0	−28.0
Audits and Investigations	1.0	−19.0	—	−2.0	—	−21.0
Licensing and Certification	10.0	−1.0	—	−2.0	—	−3.0
Toxic Substances Control	94.5	—	—	—	−1.0	−1.0
Preventive Health Services	20.8	−10.5	−1.0	−36.0 [b]	−2.0	−49.5
Medical Assistance	50.1	−31.3	−14.5	—	−1.0	−46.8
Totals	180.2	−71.8	−21.5	−51.0	−5.0	−149.3

[a] Changes shown in this table do not correspond to changes shown in Table 2 because the latter includes changes due to midyear adjustments and expiration of limited-term positions.

[b] This includes a reduction of 35 positions due to automation of Child Health and Disability Prevention claims processing.

Proposed Changes Which Should Be Approved

We recommend approval of the following support changes that are not discussed elsewhere:

- $350,000 ($88,000 General Fund) to install new data linkage equipment for the Medi-Cal Eligibility Data System (MEDS).
- A reduction of $31,000 (General Fund) and one position due to decentralization of the department's word processing center.
- A net reduction of $30,000 (General Fund) and three data processing positions due to the completion of one-time projects.

DEPARTMENT OF HEALTH SERVICES—Continued

- A reduction of $91,000 ($45,000 General Fund) and three accounting positions due to introduction of new automated accounting systems.
- A reduction of $48,000 (General Fund) and one position due to efficiencies and workload transfers in the department's budget office.
- A proposed increase of $91,000 (General Fund) and one position to implement changes in the personal needs allowance for residents of long term care facilities required by Ch 1161/85 (AB 1353).
- A reduction of $110,000 (General Fund) and two positions due to a reorganization of the Office of External Affairs.
- An increase of $78,000 (Hazardous Waste Control Account) to compile and publish laws relating to hazardous materials, as required by Ch 213/85 (AB 296).

Proposed Changes on Which We Withhold Recommendation

We withhold recommendation on the following support changes totaling $2,501,000 ($497,000 General Fund) that are not discussed elsewhere:

- $1,159,000 in reimbursements and 3.7 positions to enhance the Standardized Automated Welfare System (SAWS) central data base. We withhold recommendation on this request, pending receipt of the annual progress report due in March.
- $700,000 ($175,000 General Fund) to purchase replacement equipment for the Los Angeles County MEDS system. We withhold recommendation on this request, pending the department's evaluation of an alternative proposal submitted by Los Angeles County.
- A reduction of $125,000 (General Fund) and four positions resulting from a proposed consolidation and move of Los Angeles and Berkeley business offices to Sacramento. We withhold recommendation on this request, pending further evaluation of the proposal.
- A net increase of $96,000 (General Fund) and a reduction of five positions related to two contracts for security guard and janitorial services at the department's Berkeley laboratory facilities. We withhold recommendation on this request, pending receipt of information on contract costs expected in May.
- An augmentation of $246,000 (Hazardous Waste Control Account) for increased office space for the toxics division in southern California. We withhold recommendation on this request, because the proposal is being revised.
- A proposed reduction of six positions in favor of contracting out for data entry services. We withhold recommendation on this request, pending receipt of information on contract costs.
- A proposed reduction of $148,000 ($74,000 General Fund) and three positions due to automation of the administrative appeals system. We withhold recommendation on this request, pending the completion and preliminary evaluation of the system.
- A proposed reduction of $26,542 (General Fund) and one supervisory position due to (1) the elimination of data entry personnel through contracting and (2) a mandated supervisory/staff reduction. We withhold recommendation on this request, pending the receipt of additional cost information expected in May.

Technical Budget Preparation Shows Marked Improvement

We recommend that the Legislature adopt supplemental report language requiring the department, under the direction of the Department of Finance, to make needed schedule changes in the 1987–88 budget.

The Supplemental Report of the 1985 Budget Act required the department, under the direction of the Department of Finance, to reformat the 1986–87 budget so as to include schedules of program requirements, by fund, for local assistance and support. The 1986–87 budget includes these new schedules. The schedules separately detail support and local assistance expenditures *by program* and *by fund.* This has made the budget more easily understandable and accessible to the Legislature.

The department was also required to (1) identify all reimbursements, by program, in the summary by object and (2) identify all savings by program in the reconciliation with appropriations. These changes, however, were not reflected in the 1986–87 budget document.

Overall, the department's budget shows great improvements in internal numerical consistency and in the amount of useful program information. Nevertheless, the two additional changes required by the supplemental report are needed to provide the Legislature with a complete picture of the department's budget. Consequently, we recommend that the Legislature adopt the following supplemental report language requiring the department, under the direction of the Department of Finance, to make these two additional format changes:

> "The department, under the direction of the Department of Finance, shall reformat the schedules in the 1987–88 Governor's Budget to (1) identify all reimbursements by program in the summary by object and (2) identify any savings by program in the reconciliation by appropriations."

Operating Expenses Need Explanation

We withhold recommendation on $140,020,000 proposed for operating expenses and equipment, pending receipt of (1) more complete information on current spending and (2) final schedules for equipment and consultant and professional services.

A review of the department's final operating expense and equipment (OE&E) schedule for 1984–85 shows that actual expenditures exceeded the budgeted amount for several OE&E categories. These include communications, postage, facilities operations, utilities, and data processing. The department indicates that internal fund transfers from other OE&E items were necessary to cover these expenses.

The 1984–85 shortfalls occurred despite the fact that the budget included funds for price increases.

The 1985–86 budget did not include funds for any price increases with the single exception of postage. Nor does the 1986–87 budget include funds for price increases, even though the prices which the department must pay for some items are certain to increase. For example, the department's facilities operations costs are expected to increase by $550,000, due to an 18.5 percent rate increase in state office space rates. Besides the known cost increase in facilities operations, each 1 percent increase in OE&E expenditures results in costs of $922,000 ($461,000 General Fund). We are unable to determine how the department will fund these increases.

It is possible that, without funds to compensate for the effects of inflation on purchasing power, the department may not be able to comply with

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ongoing program requirements. If funds are not sufficient to keep the department's employees in the field, essential departmental tasks relating to licensing, Medi-Cal utilization control, and health facility auditing could suffer.

We withhold recommendation on the amount proposed for OE&E expenditures, pending receipt of information showing the current level of operating costs and how the department plans to operate during 1986–87 without further increases in funding for these costs. To assist the Legislature in determining the correct funding level for operating costs, we recommend that the department provide, by April 15, the following information:

1. A comparison of 1984–85 budgeted and actual costs for each OE&E category, the reasons for any differences, and an explanation of how cost overruns were funded.
2. An update on 1985–86 OE&E expenditures, by category, as of March 1, 1986, a projection of full-year costs including adjustments for payment lags and seasonal variations, and the department's plans to meet any shortfalls in the budgeted amounts.

Finally, at the time this analysis was prepared, we had not received final schedules either for consultant and professional services or for equipment. We cannot recommend approval of the amounts budgeted for these items without knowing what the department intends to do with the requested funds.

Change in Supervisor-to-Staff Ratios is Arbitrary

We recommend approval.

Department of Finance letter 85-12 requires departments to maintain the same supervisor-to-staff ratios in 1986–87 that existed in March 1984. The department's calculation of the allowable ratio resulted in a reduction of five manager/supervisor positions. In our discussion of state support, we withhold recommendation on the elimination of one data processing supervisory position, and we recommend approval of an additional position reduction in our discussion of the Medi-Cal budget.

The department proposes to achieve the remaining three reductions by reducing one supervising communicable disease specialist position that has been vacant since July 1985 and two office services supervisors—one in preventive medical services and one in the toxics division—on the basis that reorganizations will reduce the need for supervisory personnel.

The arbitrary supervisor-to-staff ratio standard, which is the reason for these reductions, does not provide the Legislature with adequate justification for the reductions. Nevertheless, we have no basis on which to challenge the department's assertion that it can operate adequately without these supervisors. We therefore recommend approval of the proposed reductions.

Positions Authorized For Nursing Home Oversight and Toxics Will Have to Be Kept Vacant

We recommend that during budget hearings, the department and the Department of Finance (1) report on the reasons for the proposed increase in the 1986–87 salary savings rate and (2) explain how this new rate will be achieved, particularly in the licensing, Medi-Cal operations, and toxics programs.

The 1986–87 budget proposes a 9.9 percent salary savings rate for the department. This is 14 percent higher than the salary savings rate estimated for 1985–86—8.7 percent.

The term "salary savings" refers to personal services costs for *authorized* positions that are not incurred. *Routine* salary savings can arise for two reasons. First, the cost of salaries and benefits may be "saved" because authorized positions are vacant, due to *unintended* delays in filling vacated or new positions and delays in implementing new programs. Second, salary savings may result when positions are filled with personnel who are paid lower salaries than their predecessors received.

Salary savings can also be *forced*. This occurs when an agency must consciously hold authorized positions vacant in order to achieve an arbitrary "savings" target.

Background. The department currently anticipates a 1985–86 salary savings rate of approximately 8.7 percent—well below the 9.7 percent rate contemplated by the 1985 Budget Act. The reason why the department is able to maintain a lower salary savings rate is that during the course of the year, it discovered that it had overbudgeted for salaries by $1.5 million. The department indicates that the Department of Finance will allow it to use the $1.5 million to reduce its high vacancy rate.

Table 5 shows that other departments of state government have salary savings rates varying from 3.9 to 7.8 percent, which are well below the 9.9 percent that is proposed for the Department of Health Services in 1986–87.

Table 5

Variations in Salary Savings Rates For Various Departments

Department	*Salary Savings Rate*
Employment Development	3.9
Finance	4.4
Mental Health	4.8
Education	4.9
Rehabilitation	5.6
General Services	6.1
Justice	7.0
Social Services	7.1
Developmental Services	7.8

Our analysis indicates that the department's current salary savings requirements may be *artificially* high, and that the savings may have to be *forced*. The purposes of the salary savings adjustment is to avoid overbudgeting, not to artificially reduce expenditures and personnel-year counts. Consequently, we believe the salary savings amount should be based on the best available estimate of *normal* position vacancies.

We have no basis for determining what the "normal" vacancy rate is for the department. This rate will tend to vary over time as personnel system requirements change, as private-sector jobs become easier or more difficult to obtain, as state salaries become more or less competitive. The department's normal vacancy rate, however, appears to be lower than the current salary savings requirement.

The department indicates that its salary savings rate will be forced upwards, from 8.7 to 9.9 percent in the budget year, due to (1) the Department of Finance's decision not to provide $1,701,000 for merit salary increases for current employees and (2) the fact that 1986–87 budget change

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proposals were budgeted at a 9 percent salary savings rate.

Table 6 shows how the department plans to distribute vacancies among its major programs to achieve its salary savings goal. As Table 6 indicates, the percent of authorized positions that are vacant is expected to *increase* in all but three program categories in 1986–87. Increases are especially large in the Medi-Cal Operations Division, which is responsible for utilization control and contract monitoring; Licensing and Certification, which is responsible for nursing home oversight; and Toxics, which is responsible for toxics substances control. We cannot determine why the budget proposes to increase *vacancy* rates in these crucial activities.

Perhaps the Departments of Health Services and Finance can. We recommend that the departments explain during budget hearings (1) the reasons for the increase in the 1986–87 salary savings rate, (2) how DHS proposes to achieve this higher rate, and (3) the specific reasons why the administration has chosen to force larger salary savings in licensing, Medi-Cal operations, and toxics programs.

Table 6
Estimated Salary Savings Rate Based on Budgeted Personnel-Years By Major Program Category
1985–86 and 1986–87

Program	*1985–86*	*1986–87*
Administration	6.6%	2.2%
Family health	6.5	7.7
Program development	7.7	8.5
Program administration	6.3	8.6
Audits and investigations	7.6	8.8
Toxic substances	6.9	9.0
Laboratories	8.0	9.2
Medi-Cal policy	9.8	9.3
Rural and community health	8.2	9.4
Fiscal intermediary management	9.1	9.9
Director's office	12.4	10.3
Environmental health	9.4	10.5
Preventive medicine	9.8	11.5
Licensing and certification	12.5	13.8
Medi-Cal operations	11.9	14.8

2. LICENSING AND CERTIFICATION

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

The budget proposes expenditures of $21,704,000 ($10,353,000 General Fund) for support of the Licensing and Certification program in 1986–87. This is an increase of $488,000, or 2.3 percent, above current-year expenditures.

Vacancies Fall But Backlog Persists

We recommend that, during budget hearings, the department explain how it intends to reduce existing backlogs in licensing and certification activities in order to meet statutory requirements for processing workload.

Primarily as a result of chronic understaffing, substantial backlogs have developed in the Licensing and Certification Division in all the major functions that licensing surveyors perform. Since mid-1984, the division has experienced unusually large numbers of vacancies, particularly in surveyor positions.

As of December 1985, the division's vacancy rate had declined to 13 percent of authorized positions, which was substantially lower than the 39 percent rate experienced in November 1984. Many of the division's licensing surveyors, however, are inexperienced. In fact, 38 percent of those employed as licensing surveyors in December 1985 had less than one year of experience. The problem of inexperienced field staff worsened when the department filled four new complainant hearing positions with experienced surveyors from the field. Subsequently, the new complainant hearing positions were reassigned to headquarters support staff when anticipated complaint hearing workload did not materialize.

Backlog in Federal Certification. The department places its highest priority on surveys of facilities whose federal certification under Medicare and Medi-Cal is due to expire. The federal government will allow only one 60-day certification extension. Without certification, the facility cannot be reimbursed with federal funds.

Table 7 shows the number and percentage of facilities whose certification survey date was past due in November 1985. Of the 2,718 facilities certified for Medicare reimbursement, 580, or 21 percent, were past due for recertification inspections.

Table 7
Licensing and Certification Division
Backlogs in Federal Certification Visits
(December 1985)

Facility Type	*Total Facilities Statewide*	*Facilities With Visits Past Due*	*Percent Past Due*
Skilled nursing facilities	1,154	133	11.5%
Intermediate care facilities	87	35	40.2
Institutions for the retarded	131	20	15.3
Hospitals	542	88	16.2
Psychiatric hospitals	38	21	55.3
Home health agencies	368	122	33.2
Others	398	161	40.5
Totals	2,718	580	21.3%

Source: Department of Health Services.

Backlogs in State Surveys. Because state licensing surveys need not be completed for a facility to renew its license, substantial backlogs in state surveys can occur without interrupting the facilities' operations. As a result, the department places a lower priority on the completion of state licensing surveys than on completion of federally required surveys. A substantial number of facilities have remained unsurveyed for periods well beyond those set by state law. Table 8 shows that the survey backlog

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is particularly acute among primary care, community, and Short-Doyle clinics.

Table 8
Licensing and Certification Division
Backlogs in State-Mandated Surveys
(December 1985)

Survey type	*Total Facilities Statewide*	*Facilities With Past-Due Surveys*	*Percent Past Due*	*Average Months Past Due*
Selective provider surveys	258	33	12.8%	1
Chemical dependency hospitals	6	4	66.7	2
Adult day health centers	32	1	3.1	1
Referral agencies	10	1	10.0	1
Primary care and community clinics	527	209	39.7	19
Short-Doyle clinics	355	129	36.3	14

Source: Department of Health Services.

New Reviews Add to Backlog. The department has undertaken 27 "enhanced enforcement effort" investigations since April 1985. These special reviews result in substantial demands on staff time and divert resources that otherwise would be used to reduce existing backlog.

Complaints. The department has experienced significant increases in the number of complaints that it receives about facilities. Between the first quarter of 1984–85 and the first quarter of 1985–86, complaints about facilities increased by 40 percent (from 831 to 1,161). The department did not investigate 34 percent of the complaints received in November 1985 within the 10-day period required by state law. The department indicates that it will address the issue of timeliness of complaint investigations in a report to the Legislature that it expects to complete by the end of February.

No Proposal to Decrease the Backlog. The department acknowledges that there is a serious backlog in the division's workload. Based on the department's workload standards, elimination of the backlog would require the addition of 15 full-time surveyors for one year. Yet, the budget makes no provision for the resources needed to eliminate the backlogs. We recommend that the department report during budget hearings on the steps it plans to take in order to eliminate the accumulated backlogs in licensing and certification activities.

Licensing Fee Proposal Overdue

We withhold recommendation on licensing and certification fees for 1986–87, pending receipt of a fee schedule from the department.

Current law requires the department to provide by January 17 an annual report describing the cost of the Licensing and Certification Division and calculating a fee level that will result in revenues sufficient to reimburse the General Fund for the costs of the division. The department has notified us that the required report will not be completed until February 28, 1986. Until the department completes this report, we are unable to make any recommendation regarding the fees for health facility licensing and certification.

Enhanced Enforcement Effort Justified

We recommend approval.

The budget requests $240,000 ($92,000 General Fund) for 5.5 new positions and the redirection of $51,500 in current-year overtime funds for the "enhanced enforcement effort."

This program was initiated in 1985 on a pilot basis and provides for facility inspections at irregular hours. To date, teams of investigators, auditors, and health facility evaluators have made unannounced visits at 10 facilities. These visits resulted in the issuance of 43 citations, closure of 2 substandard facilities, and license revocation proceedings for a third facility. The pilot program has shown the effectiveness of unannounced inspections of health facilities at irregular hours.

Therefore, we recommend approval of the positions and funds required to support this activity as a permanent feature of the Licensing and Certification program.

Workload Does Not Support All New Positions

We recommend that the Legislature delete $51,000 ($14,000 General Fund) and 2.7 of the 4.2 new positions requested for the Medi-Cal Field Services Branch that are not justified by workload estimates.

The budget requests $507,000 ($162,000 General Fund) for 7 new licensing and certification positions and 4.2 new Medi-Cal field office positions as a result of legislation that increased the division's workload.

Chapter 1496, Statutes of 1985 (SB 851), established a new category of licensed health facility—the intermediate care facility for the developmentally disabled—nursing (ICF/DD-N). This category of facility will provide residential care for developmentally disabled clients who require more nursing services than can be provided at community care facilities licensed by the Department of Social Services. This new facility category will increase the workload in (1) the Licensing and Certification Division, which surveys and approves new and renewal licenses, and (2) the Medi-Cal field offices, which review treatment authorization requests so that services to Medi-Cal eligible clients can be reimbursed.

Using the department's estimate of facilities to be licensed in 1986–87 and the Department of Finance's workload standards, we estimate that the Medi-Cal field offices require 1.5, rather than 4.2, new positions. Therefore, we recommend a reduction of $51,000 ($14,000 General Fund) and 2.7 positions.

Major Changes in Licensing and Certification Program Proposed

The budget proposes a series of major and minor changes in the Licensing and Certification program, which would have the *net* effect of reducing 3 departmental positions, adding 11.5 licensing positions in Los Angeles County, and transferring workload to the Cooperative Personnel Services program. The *net* cost of the department's proposal is $292,000 ($96,000 General Fund).

In the following section, we summarize the individual elements of the proposal, point out shortcomings where they exist, and make recommendations where they are appropriate. In sum, we conclude that the proposal is premature and that more data should be collected and analyzed before most of the proposed changes are made.

The department's proposal has four components. Specifically, it:

1. Reduces the frequency of licensing visits to long-term care facilities,

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thus reducing the need for state personnel.

2. Adds 20 positions to increase base staffing required to perform state and federal licensing and certification activities.
3. Transfers responsibilities related to certification of nurses assistants and home health aids to another agency.
4. Eliminates a departmental support position.

Long-Term Care Facilities Would Be Licensed Less Often

We recommend that the Legislature reject the department's proposal to reduce the frequency of comprehensive licensing reviews of long-term care facilities and augment the budget by 8.5 positions and $529,000 ($175,000 General Fund) because the department does not know what effect its proposal would have on the quality of care in health facilities.

The budget proposes to eliminate 8.5 licensing positions and $529,000 ($175,000 General Fund) as a result of less-frequent inspections of long-term care facilities (skilled nursing and intermediate care facilities) and home health agencies.

For those long-term care facilities that do not receive citations in the previous year, the department intends to reduce administratively the frequency of comprehensive licensing reviews from once a year to once every two years. Currently, the department conducts a comprehensive annual review that takes 80 staff-hours to complete. The review includes activities required for both federal certification and state licensure. Under the department's proposal, most facilities would continue to be reviewed annually for federal certification under the Medicare and Medicaid programs, but the annual federal reviews would be shortened from 80 to 35 hours per facility. The department would complete the full 80-hour review every other year for facilities that had no citations in the previous year. The department also indicates it will request legislation changing the licensing schedule for home health agencies from once a year to once every three years.

The department's proposal to lengthen the time between licensing surveys may have merit. It may be possible to extend the time between licensing visits and still maintain appropriate levels of surveillance over long-term care facilities and home health agencies. However, the department has been unable to produce information that the Legislature needs to gauge the effect of the proposal. Specifically, the following information is needed to evaluate the proposal:

- ***What percent of facilities would not require annual licensing reviews?*** The department calculated the effect of the proposal based on the assumption that two-thirds of long-term care facilities would not require an annual comprehensive review. However, this figure is outdated. During 1985 the department has issued 53 percent more citations than in 1984. The department should review its records to lower its estimate of the percent of facilities that will not require a comprehensive annual review.
- ***What percent of facilities would currently receive citations in the following year?*** Certain deficiencies might not be detected during the course of an abbreviated survey that would currently be detected. The department should provide an estimate of how many citations fall into this category.
- ***What tasks will not be completed in the abbreviated federal certifica-***

tion surveys? The proposal will reduce from 80 to 35 the number of person-hours spent on annual federal certification surveys. The department should identify the specific tasks that will not be completed under the proposal.

We cannot recommend approval of the department's proposal without this basic information concerning its effects. It is premature to make permanent changes in the division's staffing without better information on the potential effects of the reductions. We therefore recommend that the Legislature reject the department's proposal.

Staffing Standards May Be Too High

We recommend that the Legislature delete 20 new positions proposed for the Licensing and Certification program and $882,000 ($291,000 General Fund). We further recommend that the Legislature adopt supplemental report language requiring the department to conduct a study to determine staffing standards for use in developing the 1987–88 budget.

The budget proposes the addition of 20 new positions, at a cost of $882,000 ($291,000 General Fund), to conduct licensing and certification reviews required by federal and state statutes. Of the 20 new positions, 11.5 would go to the Los Angeles County licensing program through augmentation of the existing contract, and the remaining 8.5 positions would be allocated to the department's Licensing and Certification Division.

Our review indicates that the workload standards used by the department in formulating its request for the additional positions may not accurately reflect the department's real staffing needs. The department calculated its staffing needs using staffing standards that, for many categories of surveys, exceed the staff time actually spent per survey. *Actual* productivity data for the division would justify an addition of up to 14 positions, rather than the 20 requested.

Although some increased staffing may be justified, we cannot recommend approval of the requested increase in staffing at this time because it is based on workload standards that differ, in some cases by a substantial amount, from the actual time spent by surveyors in facilities. We recommend that the Legislature delay any permanent staffing changes until the department can reconcile its standards with the actual time spent conducting surveys. Although the reconciliation will delay a staffing augmentation, the department currently has 17 surveyor vacancies that can be filled. Furthermore, the lack of experienced surveyor staff in the division limits its ability to absorb and train more new staff. Therefore, the department is able to tolerate a delay without adverse consequences.

We therefore recommend that the Legislature delete the 20 proposed new positions and $882,000 ($291,000 General Fund). We further recommend that the Legislature adopt supplemental report language directing the department, in cooperation with the Department of Finance and the Legislative Analyst, to conduct a study of the division's activities to determine workload standards based on historical workload data. These standards would be available for preparation of the 1987–88 budget for the division. Our recommended supplemental report language is as follows:

"The Department of Health Services, in consultation with the Legislative Analyst and the Department of Finance, shall design and conduct a workload study of the licensing and certification functions and develop staffing standards for use in the 1987–88 budget process. To the extent feasible, the department shall rely on data from the time report-

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ing system used by the Licensing and Certification Division as a basis to establish the standards."

Contract Premature

We recommend that the Legislature restore two positions proposed for elimination as a result of a proposed contract.

The budget proposes to eliminate two positions and redirect $60,000 in salary and benefits savings ($20,000 General Fund) to fund a contract with Cooperative Personnel Services.

Currently, the Licensing and Certification Division certifies nurse assistants and home health aides and approves school programs for nurse assistants. Under the department's proposal, these functions would be performed by Cooperative Personnel Services under a contract with the division.

Our review indicates that it is not certain that the contract envisioned by this proposal will be executed. We therefore recommend that the Legislature restore two positions proposed for reduction so that the authority exists to continue the positions in the event that the contract is not executed.

Deletion of Administrative Position

We recommend approval.

The budget proposes to delete one associate government program analyst position that supports the deputy director of the Licensing and Certification Division, for a savings of $60,000 ($20,000 General Fund).

We have no basis to challenge the department's claim that it can function effectively without this administrative position.

Demonstration for Chronically or Terminally Ill Children Not Funded

We recommend that, at the time of budget hearings, the Department of Finance explain to the fiscal committees how it intends to fund the second year of a three-year demonstration project for chronically and terminally ill children.

Chapter 1473, Statutes of 1984 (AB 3005), established a three-year demonstration program to license and supervise a facility in Sacramento County that provides respite care for chronically or terminally ill children. The facility, designated as an intermediate care facility for chronically or terminally ill children, provides care for children requiring more medical care than is available in community care facilities but less care than provided in acute care hospitals. The act included a $250,000 appropriation for the first year of the project.

At the time the bill was under consideration, the department expected the costs of the three-year project to be $250,000. Following enactment of the bill, the department contracted with Children's Respite Care, Inc., to establish the demonstration facility, at a cost of $228,000 in 1985–86.

The budget request for 1986–87 does not include funds for the extension of the contract beyond 1985–86. We therefore recommend that the Department of Finance, at the time of the budget hearings, explain to the fiscal committees how it intends to fund the second year of this three-year demonstration project.

3. PUBLIC HEALTH SERVICES

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

1. The ***Preventive Medical Services Division*** is responsible for (a) preventing and controlling infectious and chronic disease, (b) conducting epidemiological studies, including examining the health effects of toxics in the environment and the workplace, and (c) identifying unmet public health needs.
2. The ***Family Health Services Division*** addresses the special needs of women and children through the Family Planning, Genetically Handicapped Persons', Maternal and Child Health, California Children's Services, Genetic Disease, and Child Health and Disability Prevention programs.
3. The ***Rural and Community Services Division*** (a) distributes funds appropriated by AB 8 (Ch 282/79) to local health agencies, (b) distributes funds to counties for care of medically indigent persons, (c) administers state and federal subvention programs that provide funds for the support of local public health activities, (d) distributes funds for capital outlay projects to local health agencies, and (e) provides technical assistance in funding matters to local health departments.
4. The ***Laboratory Services Division*** maintains two state laboratories that provide assistance to state programs which require specialized laboratory services. In addition, the division regulates other public and private biomedical laboratories to ensure the provision of high-quality services within the state.
5. The ***Environmental Health Division*** operates programs to protect public health by controlling food, drugs, water supplies, vectors, noise, and unnecessary exposure to ionizing radiation.

In addition, public health services staff administer a number of special projects. These projects, which are shown separately in the budget, are studies or demonstration projects that are 100 percent funded by the federal government, other state agencies, or other organizations.

Budget Proposal

Local Assistance. The budget proposes $1,148,856,000 (all funds) in local assistance for public health services in 1986–87. This represents an increase of $13.7 million, or 1.2 percent above estimated current-year expenditures. Table 9 presents local assistance expenditures, by program, for 1984–85 through 1986–87.

The increase proposed for local assistance primarily reflects the following changes:

- A $20.8 million (General Fund) increase for AB 8 county health services programs to provide a 3.95 percent cost-of-living adjustment (COLA) and funding for utilization increases.
- A $7.5 million (General Fund) increase to maintain the current level of services provided by the Maternal and Child Health program.
- A $7.6 million ($86,000 General Fund, $7.5 millon special funds) reduction in support for local health capital outlay projects.
- A decrease of $5.0 million (special funds) in funding for county hospital equipment purchases.
- A decrease of $1.1 million (General Fund) in funding for the Medically Indigent Services (MIS) reporting system.
- An increase of $9.5 million reflecting caseload adjustments in several programs.

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Table 9
Department of Health Services
Public Health Local Assistance
Expenditures and Funding Sources
1984–85 through 1985–86
(dollars in thousands)

Program	Fund	Actual 1984–85	Est. 1985–86	Prop. 1986–87	Change From 1985–86 Amount	Change From 1985–86 Percent
1. PREVENTIVE MEDICAL SERVICES	General	($5,236)	($7,703)	($8,206)	($503)	6.5%
A. Immunization Unit	General	1,395	2,629	2,590	−39	−1.5
B. TB Control	General	441	452	922	470	104.0
C. Preventive Health Care For the Aged	General	1,238	1,303	1,303	—	—
D. Lupus Erythmatosus Research	General	645	772	772	—	—
E. Dental Health	General	1,517	1,608	1,680	72	4.5
F. Alzheimer's Disease	General	—	939	939	—	—
2. FAMILY HEALTH	All	($107,710)	($135,850)	($140,167)	($4,317)	3.2%
A. Family Planning	General	28,982	34,155	34,155	—	—
B. Maternal and Child Health						
Infant Dispatch	General	220	233	233	—	—
Perinatal Access	General	820	844	844	—	—
High Risk Follow-Up	General	779	811	811	—	—
	Federal	200	200	200	—	—
Perinatal Health	General	1,496	1,525	1,525	—	—
Perinatal Improvement	General	—	—	1,666	1,666	100.0
	Federal	—	5,400	3,734	−1,666	−30.9
Adolescent Family Life	General	—	1,082	2,260	1,178	108.9
	Federal	—	3,828	2,650	−1,178	−30.8
Primary Care Clinics	General	967	1,011	1.011	—	—
MCH Grants	General	241	—	4,667	4,667	100.0
	Federal	16,143	16,754	11,587	−5,167	−30.8
C. California Children's Services						
Genetically Handicapped Persons' Program	All	($4,178)	($6,482)	($7,258)	($776)	12.0
	General	4,064	6,412	7,188	776	12.1
	Repayments	114	70	70	—	—
California Children's Services	All	(45,828)	(50,428)	(54,090)	(3,662)	7.3
	General	40,649	44,974	48,636	3,662	8.1
	Federal	4,704	4,704	4,704	—	—
	Repayments	475	750	750	—	—
D. Child Health and Disability Prevention	General	6,230	11,418	11,797	379	3.3
E. Genetic Disease Prevention						
Sickle Cell	General	518	539	539	—	—
Prenatal Testing	General	627	654	654	—	—
Tay Sachs	General	467	486	486	—	—
G. Long-Term Care and Aging	General	14	—	—	—	—
3. RURAL AND COMMUNITY HEALTH	All	($890,778)	($991,562)	($1,000,483)	($8,921)	0.9%
A. Primary Health Care						
Rural Health	General	3,741	3,862	3,862	—	—
Primary Care Clinics	General	422	448	448	—	—
Indian Health	General	2,881	2,996	2,996	—	—
Farmworker Health	General	998	1,038	1,038	—	—

B. County Health Services						
Local Government Relief (AB 8)	General	384,315	399,802	420,610	20,808	5.2
County Public Health Projects (SNAP)	CHSF	2,200	2,200	2,200	—	—
County Hospital Equipment	Other	—	5,000	—	−5,000	−100.0
Public Health Subvention	General	681	737	737	—	—
	Federal	466	585	585	—	—
Local Health Capital Expenditure	LHCEA	3,042	7,520	—	−7,520	−100.0
	General		86	—	−86	−100.0
Medically Indigent Services	General	492,032	—	—	—	—
MIA Program	General	—	523,435	523,435	—	—
MIA Data System	General	—	1,100	—	−1,100	−100.0
County Medical	General	—	42,753	42,753	—	—
Services Program	Ch 1594/82			1,819	1,819	100.0
TOTALS	All	$1,003,724	$1,135,115	$1,148,856	$13,741	1.2%
Funding Sources						
General Fund		976,366	1,094,545	1,120,557	27,453	2.5
Federal funds		21,513	31,471	23,460	−8,011	−25.5
Family repayments		589	820	820	—	—
County Health Services Fund		2,200	2,200	2,200	—	—
LHCEA		3,042	6,079	—	−7,520	−100%
Ch 1594/82		—	—	1,819	1,819	100%

Table 10 reflects proposed budget changes affecting local assistance expenditures in 1986–87.

Department Support. The budget proposes $118,641,000 for department support attributable to public health programs in 1986–87. (This amount excludes funding for special projects.) The requested amount is $842,000, or 0.4 percent, less than estimated current-year expenditures for department support.

The budget proposes a net reduction of 23.7 positions authorized for public health programs in 1985–86. This is a reduction of 1.8 percent.

The major increases proposed in the support budget would be used to:

- Expand current immunization programs for children and the elderly ($1.4 million General Fund).
- Track the incidence of birth defects in 32 counties pursuant to recently enacted legislation ($397,000 General Fund).
- Expand the cancer registry program to 26 additional counties consistent with recent legislation ($1,015,000 General Fund).
- Increase staffing by 15.8 positions at the state laboratories due to a variety of departmental initiatives ($943,000 from the Hazardous Waste Control Account).

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

- Eliminate $3.1 million (General Fund) in one-time contractual services budgeted in 1985–86 for the purpose of assessing the health threat from a variety of potentially hazardous materials.
- Eliminate 44.5 positions and $466,000 (General Fund) for various reasons.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 10
Department of Health Services
Preventive Health Local Assistance
Proposed 1986–87 Budget Changes
(in thousands)

	General Fund	Other Funds	All Funds
1985–86 estimated expenditures (Budget Act)	$1,093,104	$34,491	$1,127,595
Baseline adjustments, 1985–86: Capital projects	—	7,520	7,520
1985–86 expenditures (revised)	$1,093,104	$42,011	$1,135,115
Baseline adjustments, 1986–87:			
1. Delete one-time immunization augmentation	−$180	—	−$180
2. Delete one-time MCH federal fund augmentation	–	−$8,011	−8,011
3. Delete one-time county hospital equipment augmentation	−5,000	—	−5,000
4. Delete local health capital expenditure	—	−7,520	−7,520
5. Delete MIA data system funding	−1,100	—	−1,100
6. Ch 1594/82 (CMSP)	—	1,819	1,819
7. Delete Ch 111/85 reappropriation	−86	—	−86
Subtotals	−$6,366	−$13,712	−$20,078
Caseload adjustments:			
1. Genetically handicapped persons' utilization program	$766	—	$766
2. California children's services utilization increase	3,662	—	3,662
3. Child health and disability prevention utilization increase	379	—	379
4. Local government relief population increase	4,700	—	4,700
Subtotals	$9,507	—	$9,507
Cost-of-living adjustment:			
County health services (3.95 percent)	$16,108	—	$16,108
Program change proposals:			
1. Immunization augmentation	$141	—	$141
2. TB control augmentation	470	—	470
3. Dental health redirection	72	—	72
4. General Fund augmentation to replace federal MCH funds	7,511	—	7,511
Subtotals	$8,194	—	$8,194
1986–87 expenditures (proposed)	$1,120,557	$28,299	$1,148,856
Change from 1984–85 (revised)			
Amount	$27,453	−$13,712	$13,741
Percent	2.5%	−32.6%	1.2%

Table 11
Department of Health Services
Public Health Support
Positions and Expenditures—All Funds
1985–86 and 1986–87
(dollars in thousands)

	Positions			Expenditures		
	Est. 1985–86	Prop. 1986–87	Percent Changes	Est. 1985–86	Prop. 1986–87	Percent Changes
Preventive medical services	216.7	214.7	−0.1%	$29,378	$32,802	11.7%
Family health	258.4	225.4	−12.8	19,186	18,512	−3.5
Rural and community health	222.9	217.4	−0.5	12,083	12,592	4.1
Laboratories	407.1	422.9	3.7	32,185	34,008	5.4
Environmental health	301.9	300.9	—	26,651	20,727	−22.3
Subtotals	1,407.0	1,381.3	−1.8%	$119,483	$118,641	−0.7%
Special projects	327.1	378.8	13.5	209,619	227,912	8.0
Totals	1,734.1	1,760.1	1.5	$329,102	$346,553	5.3%

Table 11 displays staffing and operating support for each public health program in the current and budget years.

Table 12 details the budget changes proposed for each public health program in 1986–87.

Table 12
Department of Health Services
Public Health Services Support
Budget Changes, 1986–87
(dollars in thousands)

Preventive Medical Services	*Positions*	*General Fund*	*All Funds*
Immunization initiative	—	$1,363	$1,363
Dental health	−2.0	−72	−72
Birth defects monitoring	—	397	397
Toxic information center	—	16	16
Disaster medical planning	2.0	169	169
Cancer registry	—	1,015	1,015
Indoor asbestos contamination	—	41	41
Occupational health and disease	2.0	486	486
Indoor asbestos standards	—	30	30
Family health			
CHDP/CHIC contracting out	−30.0	−160	−322
Family planning automated data system	−1.0	49	49
School therapy program	−2.0	−89	−89
Infant mortality	—	100	100
Rural and community health			
Public health nurse certification	−1.0	—	—
Southern region rural health	−2.0	−74	−74
County health services	−2.5	−62	−62
Laboratories			
Hazardous materials	4.0	—	193
Facility permitting	6.9	—	393
Surveillance and enforcement implementation	4.9	—	457
Environmental health			
Reduction of Noise Control program	−2.0	−94	−94
Milk processing plant inspections	1.0	49	49
Radioactive materials	—	49	49
Manager/Supervisor Ratio	−2.0	−65	−65
Total budget change proposals	−23.7	$3,148	$3,869

Public Health Program Position Reductions

The DHS proposes to eliminate 44.5 positions and $466,000 (General Fund) to reflect a variety of efficiencies and service reductions. Table 13 displays the proposed staff reductions in DHS public health programs.

Not all of the proposed staff reductions result in savings. In some cases the savings are redirected to purchase additional services.

Many of the position reductions are characterized by the department as program efficiencies. The remaining reductions would result in a lower level of service provided by the department. The following section reviews the various departmental proposals that would result in position reductions.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 13
Department of Health Services
Public Health Programs
Proposed Staff Reductions
1986–87

	Positions	*General Fund Savings*
Program consultants	6.0	$183,000
Rural health and family planning	3.0	123,000
County health services	2.5	62,000
Nursing certification	1.0	—
Supervisory ratio [a]	2.0	65,000
CHDP claims processing	30.0 [b]	33,000
Totals	44.5	$466,000

[a] These position reductions are discussed with similar supervisory staff reductions under the department's Administration Divison.
[b] Excludes 5 data processing positions in the Administrative Division.

Effect of Elimination of Consulting Positions Unknown

The department proposes to eliminate six program consultants that provide technical assistance to local agencies. Specifically, the department proposes to eliminate two consultants from each of the following programs: the California Children's Services (CCS) medical therapy unit, the Dental Health Disease Prevention program, and the Noise Control program. The budget would redirect $72,000 in savings from the position cuts to local agencies for the dental program. It does not propose to make any additional funds available to local agencies for the CCS or Noise Control programs.

The department could not indicate how the elimination of the six positions would affect the operation of local programs. Presumably, local agencies operating CCS therapy units or noise control programs that need technical assistance would either have to support additional technical assistance costs using local funds or do without the service.

Without an assessment of how the position reductions would affect local programs, we are unable to make a recommendation on the proposed reduction.

Efficiencies Make Sense

The department proposes to eliminate three positions due to specified efficiencies in the operations of the Rural Health program (two positions) and the Family Planning Branch (one position). These reductions would be achieved by:

- ***Closing a regional office.*** The Rural Health program maintains a regional office in Los Angeles in order to provide assistance and oversight to nine rural health clinics in the southern half of the state. By redirecting to Sacramento one of the three positions now assigned to the Los Angeles office and adding $25,000 in travel funds, the DHS could maintain the existing level of services while eliminating two positions.
- ***Increasing use of an automated system.*** The Family Planning

Branch proposes to eliminate one position by increasing its use of an existing computer system that processes specified claims and information, at a net cost of $49,000. The department advises, however, that the automated claims system provides other benefits—such as auditing contractor claims—which justify the additional expense.

Because our review indicates that proposed improvements in office procedures are worthwhile, we recommend that the position reductions be approved.

Reductions Require Statutory Changes

The department proposes to reduce staffing for the County Health Services program by 2.5 positions as a result of proposed efficiencies in program operations. Specifically, the department proposes to (1) consolidate five reports on county health services into one annual report (1 position), (2) revise the procedure for reallocating local health service funds during the middle of the year (0.5 position), and (3) reorganize program staffing to reduce supervisory needs (1 position). The DHS advises that eliminating four reports and revising the allocation methodology would require statutory changes. If no statutory changes are made, the reduction of 2.5 postions would be made in other areas.

We requested workload data documenting that the proposed staff reductions could be made by consolidating activities as the department proposes. The department indicated, however, that no workload data were available.

Transfer of Certification Responsibilities is Premature

We recommend that the Legislature restore one nursing position because the department's proposal to contract for public health nurse certifications would yield no identifiable benefit and would be disruptive given the further changes contemplated for this program.

The budget proposes to (1) eliminate one nursing position that currently processes applications for public health nursing certificates and (2) redirect $25,000 to purchase similar services from the Cooperative Personnel Services (CPS) agency that are needed to certify public health nurses.

The DHS plans to revise the way public health nurses are certified. At the present time, nurses have only to successfully pass specified courses at accredited schools. In the future, the department wants to require that applicants pass a standardized examination in order to receive certification. The DHS plans to begin writing the test during 1986–87 and hopes that the Board of Registered Nursing will take over the testing and certifying of public health nurses within one to two years. In the interim period, the department proposes to contract with CPS for the current certification reviews.

Our analysis indicates that transfer of certification responsibilities to CPS would yield no identifiable benefits. No savings are anticipated from the proposed change. Services to applicants are not expected to improve. Moreover, since DHS plans to permanently transfer certification responsibility to the Board of Registered Nurses within one to two years, interim transfer of the responsibility to CPS would seem to be unnecessary, as well as disruptive. For these reasons, we recommend that the Legislature restore one position so that the department can continue certifying public health nurses directly.

DEPARTMENT OF HEALTH SERVICES—Continued

Contract Proposed for Child Health and Disability Prevention Program

We recommend approval.

The budget requests $900,000 ($293,000 General Fund) to support a contract with Electronic Data Systems Federal (EDSF) for processing claims submitted under the Child Health and Disability Prevention (CHDP) program. The budget also reflects a corresponding decrease of $1,000,000 ($326,000 General Fund) in state support costs due to the elimination of 30 positions in the CHDP Branch and 5 positions in the Administration Division that process CHDP claims.

The department has signed a contract with EDSF that would be activated if the Legislature approves the necessary funds. The department's schedule calls for the transfer of the existing system to EDSF beginning July 1986. EDSF would assume responsibility to process all claims arriving after September 1986, and state staff reductions would begin at that time.

The department's estimates indicate that the proposal will reduce costs to the state. At the same time, the contract requires EDSF to meet or exceed the department's current performance standards in accuracy and timeliness of claims processing. It also requires EDSF to establish a provider relations unit to assist providers with billing problems.

We recommend that the Legislature approve the proposal because the contract is likely to provide the same or an improved level of service at a lower cost to the state.

Family, Rural, and Community Health Services

California Children's Services (CCS) Budget Overestimated

We recommend that the department explain how it intends to improve the accuracy of the budget forecast for the CCS program.

The budget proposes $54,090,000 for the CCS program in 1986–87. This is an increase of $3,662,000, or 6.8 percent, from current-year estimated expenditures. Of the amount requested, $48,636,000 would come from the General Fund and $4,704,000 is from the federal MCH block grant. The CCS program provides medical assistance to children with disabling diseases.

In recent years, the department has significantly overestimated CCS funding needs. Table 14 shows the expenditure estimates for the program as proposed in the Governor's Budgets for recent years, as well as the actual expenditures for these years. The table shows that although the department's forecasts for 1982–83 through 1984–85 anticipated constant growth in expenditures, there was almost no growth in actual expenditures.

While the most recent estimate of expenditures in the current year shows a $4,600,000 increase from the May 1985 estimate (from $45.8 million to $50.4 million), it is still $6,020,000 less than the amount proposed in the 1985–86 Governor's Budget. Moreover, the department indicates there is a good chance that the May (1986) revision of 1985–86 estimates will show yet another downward revision of estimated spending in the current year.

Even if actual expenditures in the current year hit $50 million, we believe the level of expenditures budgeted for CCS in 1986–87 is too high—perhaps by as much as $4 million.

Table 14
Department of Health Services
California Children's Services
Budget Estimate and Actual Expenditures
1982–83 through 1986–87

Fiscal Year	*Proposed Expenditures*	*Actual Expenditures*	*Difference*
1986–87	$54,090,000	—	—
1985–86	56,470,000	$50,428,000 [a]	$6,042,000
1984–85	53,371,000	45,828,000	7,543,000
1983–84	45,205,000	45,041,000	164,000
1982–83	44,908,000	46,267,000	(1,359,000)

[a] Most recent estimate of current-year expenditures, November 1985.

The department's program staff agrees that its model for estimating CCS costs may have an upward bias. They are hesitant, however, to make a full-scale revision in the model because they are not convinced that a new trend has emerged.

If expenditures in the budget year *are* overestimated, it would unncessarily tie up a significant amount of state funds—funds that could be used to achieve other legislative priorities. Because the department will have an opportunity to revise its CCS caseload projections for the May revision of expenditures, we see no point in recommending a reduction in the appropriation for CCS at this time. We recommend, however, that the department report to the fiscal committee prior to budget hearings on the steps it is taking to improve its estimating model so that its forecasts of expenditures under the CCS program are more accurate.

Population Adjustment Overbudgeted

We recommend that the Legislature reduce by $3.5 million the amount budgeted from the General Fund for county health services because the budgeted amount far exceeds the amount needed to adjust for the expected increase in population.

The budget proposes a $4.7 million General Fund increase for county health services (AB 8). This increase is intended to compensate for the increases in the counties' population.

The Legislature began providing assistance to counties in 1979 so as to partially offset the loss of local property tax revenues resulting from Proposition 13 (1978). The Department of Health Services distributes these funds to help support local health services. State law requires AB 8 grants to be adjusted to account for population increases. According to the department, local grants to counties increase approximately $1.2 million for every 2 percent increase in population.

An augmentation of $4.7 million would provide for an 8 percent population adjustment. During the last five years, however, population increases have averaged about 2 percent. The department indicates that it does not expect any unusual population increases during the budget year.

Based on recent population trends, we estimate that an increase of $1.2 million should be adequate to fund the statutory population adjustment for AB 8 grants in 1986–87. Accordingly, we recommend that the Legislature reduce the General Fund appropriation for county health services by $3.5 million.

DEPARTMENT OF HEALTH SERVICES—Continued

Federal Funds Available to Supplant General Fund Support

We recommend that the Legislature (1) reduce the General Fund appropriation for maternal and child health programs by $111,000 and (2) increase federal funds by $611,000 (for a net augmentation of $500,000) because unexpended federal funds can be available to support the program.

The budget proposes $32.2 million for maternal and child health programs in 1986–87. This amount includes a $7.5 million General Fund augmentation to maintain the program at approximately the current-year funding level.

The federal Maternal and Child Health (MCH) block grant supports local programs aimed at reducing infant mortality and providing needed medical assistance to children. The 1985 Budget Act used one-time federal funds to increase support for these programs by $9.3 million (to $32.7 million). The additional funds were used to support two new programs: The Perinatal Improvement program (PIP) ($5.4 million) and the Adolescent Family Life program ($3.8 million). The PIP supports a number of programs designed to reduce infant mortality. The Adolescent Family Life program is designed to help teenage mothers develop "life options" and to ensure that teenage mothers and their infants receive services needed to maintain their health.

According to the DHS, the $7.5 million General Fund augmentation requested for 1986–87, together with $1,262,000 in carry-over federal funds, would allow the department to continue $8.8 million of the $9.3 million 1985–86 legislative augmentation. The department advises that the remaining $500,000 would not be restored, thereby reducing the amount of funds available for local programs and studies.

The budget indicates that the PIP and the Adolescent Family Life program would be continued at the 1985–86 levels. It is not clear where the $500,000 cut would occur.

Additional Federal Funds Are Available. Our analysis indicates that an additional $611,000 in federal funds will be available for MCH programs during 1986–87. This is because the expenditure of federal funds for local assistance in 1984–85 was $611,000 lower than anticipated, causing this amount to be carried over into the current year. These funds will not be spent during 1985–86; they are not included in the department's current budget.

Since these monies will not be spent during 1985–86, they can be used in the budget year to maintain the existing level of MCH programs and replace $111,000 in General Fund support. Accordingly, we recommend that the Legislature delete $111,000 from the General Fund appropriation for maternal and child health programs and *increase* federal funds by $611,000 for a net augmentation of $500,000.

Information on Medically Indigent Services (MIS) Reporting System Needed

We recommend that in the forthcoming report on the Medically Indigent Services reporting system, the department (1) include a clear discussion of system goals and objectives, (2) present cost estimates and other information related to system implementation, and (3) address the cost and benefits of alternative MIS reporting systems.

The budget proposes no additional funding for design or implementation of a computerized reporting system for county medical services provided to indigent persons.

Background. The Budget Act of 1984 appropriated (1) $250,000 for the design of a data collection system for the Medically Indigent Services program and (2) $1 million for county implementation of the system. The Budget Act also required that the system be designed in consultation with the Legislative Analyst's office, the County Supervisors' Association of California, and the California Association of Public Hospitals.

The following year, the Budget Act of 1985 appropriated an additional $100,000 for system design and reappropriated funds for county implementation. In addition, the 1985 Budget Act required the department to begin implementation of the system and prepare a status report for the Legislature by January 1, 1986.

Department Unable to Meet Deadlines. The department has not been able to meet the Legislature's January 1, 1986, deadline for either the status report or the start of the implementation phase. The department has, however, contracted with the Western Consortium for the Health Professions for system design and development. The consultant has studied current county capabilities and methods of collecting and analyzing data related to indigent populations and has made recommendations to the department.

The system recommended by the contractor would allow the department to compile and compare (1) an unduplicated count of inpatient, outpatient, and other services, (2) the average length of inpatient stay, (3) the average expenditure per user for inpatient, outpatient, and other services, (4) charges by type of provider (including contract or noncontract hospital), (5) the type of providers within a specified geographic area, (6) the volume of, and charges for, emergency care, (7) a demographic user profile (age, sex, and race), (8) a demographic expenditure profile, and (9) the charges to patient and/or county by specific provider. These data would allow for a variety of comparisons to be made involving similarities and differences between county health delivery systems, and provide better information for use in developing fiscal impact studies, budgets, and cost estimates for proposed legislation.

Implementation Costs Uncertain. The contractor preliminarily estimates that implementation of the recommended reporting system would cost $1,310,000. This estimate, however, probably understates implementation costs because neither Los Angeles nor San Francisco—the two counties with the largest indigent caseloads which also have relatively unsophisticated systems for recording patient-specific information— responded to this survey. In addition, the survey did not distinguish between one-time and ongoing costs or specifically ask counties to estimate their implementation costs. The department currently is working with the contractor to develop a new survey that seeks to remedy these problems.

The department has not yet responded to the contractor's recommendations and consequently has delayed issuance of the January 1, 1986, status report to the Legislature. One of the factors delaying formulation of a department position on the design of the MIS reporting system is opposition by some counties to the relatively comprehensive reporting system envisioned by the consultant.

County opposition to a comprehensive data reporting system appears to be based on two considerations: (1) the potential cost of the system and (2) the fact that to date MIS funds have been made available on a block grant basis, and the counties have not had to account for how they use the

DEPARTMENT OF HEALTH SERVICES—Continued

funds. The counties desire for maximum local discretion and the Legislature's need for a reliable and objective data base that can be used to determine county funding needs appear to be in conflict. This conflict is at the heart of the current delay in system implementation.

System Objectives Not Clear. Past Budget Acts do not clearly specify what the MIS reporting system should accomplish. The system *could* achieve a variety of objectives. It could (1) project the *total amount* that the state should appropriate for county medically indigent populations, (2) determine the *need for individual county MIS allocation,* and (3) monitor and *compare the effectiveness* of county program administration. The expectations held for the MIS reporting system will determine the kind and amount of data collected and will influence the cost of implementing and operating the system.

Estimation of Statewide MIS Appropriation. If the sole objective of the data system is to determine what amount should be appropriated to adequately care for county indigents, the primary decision becomes whether the appropriation is to cover (1) all county indigents or (2) only individuals who would be eligible for Medi-Cal as medically indigent adults if responsibility for this category of beneficiaries had not been transferred to the counties in 1982.

The recommendation of the contractor who is designing the system is to collect data on *all* county indigents utilizing services. The contractor recommends that the reporting system not attempt to identify individuals who would have been eligible for Medi-Cal had responsibility for them not been transferred to the counties. The contractor believes that the variance among the counties' eligibility standards and processes make the collection of comparable data a major undertaking.

Legislature's Needs May Not Be Satisfied. Our review indicates that the contractor's recommendations may not lead to the collection of data that meets the Legislature's needs, if the Legislature desires a comprehensive data collection system. Data on income, family size and composition, available insurance coverage, share of cost, and employment status of indigent persons will not be available under the proposed system.

Without these data, the department will not be able to determine:

- The value and volume of services provided to individuals who formerly were the responsibility of the Medi-Cal program.
- Which counties provide the most and least complete services to former Medi-Cal recipients.
- What percentage of an individual county's indigent caseload is composed of the working poor.
- How individual county share-of-cost collections from patients vary by income and working status.
- How effectively individual counties bill insurance companies and other third-party payors.

The cost of collecting the required information would be substantial. County hospitals currently have staff that determine if patients have insurance, Medi-Cal, Medicare, or other forms of third-party coverage and collect eligibility information from indigent persons served by the county health system. Collection of the additional information (e.g., income, employment status, family composition) would significantly increase the average amount of time staff spend with an indigent patient. Given the large volume of patients, this will lead to higher costs.

Consequently, the value of the additional information must be weighed against the collection and processing costs. The department indicates that periodic surveys may provide adequate data on these issues if comprehensive data were collected for each patient.

Legislature Needs Department's Proposal. For two consecutive years, the Legislature has placed a high priority on developing an MIS reporting system. It has done so by augmenting the budget and providing language to direct the department's system development efforts. The department has employed a consultant to recommend the design of the MIS reporting system, and the consultant has completed its work and made a recommendation. Before the Legislature can proceed further with the development of the system, it needs a recommendation from the department on the system design and more information about the costs of various options.

We recommend that the department include the following information in its status report to the Legislature and submit the completed report by April 1, 1986.

- A discussion of the department's goals and objectives for the MIS reporting system.
- The department's recommendation regarding the kind of information that the MIS reporting system should gather and the type of analyses that the system would generate.
- A summary of the MIS reporting system recommended by the consultant, a timetable for implementing the system, and an updated estimate, by fiscal year of the cost of (1) installing and (2) operating the system.
- A description of how the department plans to evaluate the funding requirements for the MIS program for 1986–87 and beyond once the MIS reporting system is operational.
- An estimate of what the additional cost would be to collect data on income, family composition, employment status, and third-party recoveries.

Preventive Medical Services, Environmental Health, and Division of Laboratories

Acquired Immune Deficiency Syndrome (AIDS) Programs

AIDS is an extremely serious public health problem—one that threatens many segments of our society. Neither a cure nor a vaccine for the disease exists; it is almost 100 percent fatal. The number of reported cases is doubling approximately every 10 months.

AIDS also is a major public policy concern, both because of the threat it poses to public health and because the disease is not well understood by the public at large. Misinformation about the virus and how it is transmitted is widespread, and fears about the disease have led to substantial public concern.

The Legislature has addressed the problem on a variety of fronts by enacting the following measures:

- Chapter 1257, Statutes of 1983 (SB 910), which established an AIDS advisory committee to provide for the advancement of knowledge about the disease and to provide for research, education, and other projects as needed.
- Chapter 22, Statutes of 1985 (AB 403), which protects the privacy, employment, and insurance coverage of those who submit to the AIDS antibody tests.

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- Chapter 1519, Statutes of 1985 (SB 292), which protects the privacy, employment, and insurance coverage of those who participate in AIDS research projects.
- Chapter 23, Statutes of 1985 (AB 488), which provides appropriations to help fund alternative AIDS antibody test sites, the objective being to help protect the donated blood supply from the AIDS virus.
- Chapter 767, Statutes of 1985 (SB 1251), which provides funding both for treatment and for information and education projects.
- The Budget Act of 1985, which provides funds for additional information and education projects, as well as for additional staffing in support of the AIDS program.

Release of AIDS Plan Delayed

The Budget Act of 1985 directed the Department of Health Services (DHS) to prepare and present to the Legislature by October 31, 1985, a comprehensive plan for its AIDS programs, including its budgetary needs for 1986–87. At the time this analysis was written, the plan had not been released. The department indicated, however, that it would release the comprehensive plan by March 1, 1986.

The comprehensive plan should have a significant impact on the department's budget request for the AIDS program in 1986–87. In its present form, the budget is incomplete. Moreover, without the plan, it is difficult for the Legislature to determine what the department has done and what it hopes to accomplish in its fight against AIDS during the budget year and beyond.

The department should be prepared to explain to the fiscal subcommittees why the release of the plan was delayed so long.

Our review of the 1986–87 budget and the department's performance in managing the AIDS program has turned up specific problems related to:

- The AIDS budget and program.
- The information and education contracts.
- The SB 1251 projects.
- The alternative testing program.
- The staffing of vacant positions.

The analysis that follows will discuss each of these problem areas.

AIDS Budget Needs Clarification

We recommend that prior to budget hearings, the department prepare a budget change proposal explaining how it intends to use (1) a General Fund augmentation of $1,700,000 that appears to be related to the SB 1251 programs and (2) a $377,000 augmentation in federal funds for the surveillance program in 1986–87.

The budget proposes *total* expenditures of $16,811,000 (not including University of California research and Department of Mental Health funds) for the AIDS program in 1986–87. This is an increase of $1,385,000, or 9 percent, above the amount available in the current year.

Proposed *General Fund* expenditures for the AIDS program in 1986–87 are $11,441,000. This amount is $751,000, or 6.1 percent, *below* what is available in the current year.

Table 15
Department of Health Services
Funding For AIDS Program
(dollars in thousands)

	1984–85			*1985–86*			*1986–87*			*Dollar Change From 1985–86*			*Percent Change From 1985–86*		
	General Fund	*Federal Funds*	*Total Funds*	*General Fund*	*Federal Fund*	*Total Funds*	*General Fund*	*Federal Funds*	*Total Funds*	*General Fund*	*Federal Funds*	*Total Funds*	*General Fund*	*Federal Funds*	*Total Funds*
Department of Health Services:															
Support for AIDS branch	$263	—	$263	$440	—	$440	$449	—	$449	$9	—	$9	2%	—	2%
SB 1251—various projects	—	—	—	$2,060	—	$2,060	$1,700	—	$1,700	($360)	—	($360)	−17%	—	−17%
AB 488—alternative test sites	—	—	—	$5,000	$2,456 [a]	$7,456	$4,600 [b]	— [c]	$4,600	NA	NA	NA	−8%	−100%	−38%
Information and education projects	$737	—	$737	$4,692	—	$4,692	$4,692	—	$4,692	—	—	—	—	—	—
Demonstration/research projects	—	$146	$146	—	$555	$555	—	$4,770	$4,770	—	$4,215	$4,215	—	759%	759%
Surveillance and epidemiology	—	$126	$126	—	$223	$223	—	$600	$600	—	$377	$377	—	169%	169%
Subtotals, DHS	$1,000	$272	$1,272	$12,192	$3,234	$15,426	$11,441	$5,370	$16,811	($351)	$4,592	$4,241	−6%	66%	9%
Other agencies:															
University Research	$3,094	—	$3,094	$7,200 [d]	—	$7,200	$7,200	—	$7,200	—	—	—	—	—	—
Department of Mental Health	—	—	—	$600	—	$600	$600	—	$600	—	—	—	—	—	—
Totals, all agencies	$4,094	$272	$4,366	$19,992	$3,234	$23,226	$19,241	$5,370	$24,611	($351)	$4,592	$4,241	−4%	66%	6%

[a] The department indicates that the federal government has made these funds available to California; these funds, however, do not appear on the schedules in the Governor's Budget.
[b] Funds expected to be carried forward from $5,000,000 appropriated in the current year.
[c] The department indicates that it does not know if it will again receive federal funds for alternative test sites.
[d] Consists of $4,900,000 appropriated by the Budget Act and $2,300,000 appropriated by Ch 767/85 (SB 1251).

DEPARTMENT OF HEALTH SERVICES—Continued

The proposed General Fund appropriation consists of the following:

- $449,000 for support of the department's AIDS Branch.
- A $1,700,000 augmentation for community support block grants and a cost-of-care study.
- $4,600,000 in unexpended 1985–86 funds carried forward into 1986–87 for alternative centers that test blood samples for AIDS antibodies.
- $4,692,000 apparently for continuation of AIDS information and education contracts.

The proposed federal fund appropriation consists of:

- $4,770,000 for demonstration and research projects.
- $600,000 for surveillance and epidemiology studies.

Table 15 shows total funding available to the AIDS program from 1984–85 through 1986–87. This table represents our best currently available information on AIDS program funding. We caution, however, that the figures on the table may change as more information becomes available.

The budget for AIDS-related programs is not well documented. Consequently, it is difficult to determine exactly how much money is available and for what purposes these funds can be used.

The budget proposes two significant augmentations for the AIDS program that have *not* been described or justified in budget change proposals. One requests $1.7 million from the General Fund for "community block grant projects" and a cost-of-care study. The other requests $337,000 in federal funds for expansion of surveillance and epidemiological activities.

Budget change proposals (BCPs) are documents that departments must prepare on all significant changes that are proposed in program budgets. They are supposed to present background information on the proposed change, explain and justify the nature of the change, and show the fiscal effects of what is being proposed.

So that the Legislature can evaluate the department's budget request and fully understand what the proposed augmentations would fund, we recommend that prior to the budget hearings, the department prepare budget change proposals explaining and justifying the $1,700,000 General Fund augmentation and the $377,000 federal fund augmentation.

Demonstration and Research Projects Need Explanation

We recommend that prior to the budget hearings, the department prepare a budget change proposal covering $4,770,000 in federal funds, which explains in detail its expenditure plans for demonstration and research projects in 1986–87.

The budget proposes the expenditure of $4,770,000 in federal funds for AIDS demonstration and research projects in 1986–87. This is an increase of $4,215,000 above the amount available in the current year. Table 16 itemizes federal funding for AIDS-related demonstration and research projects. As the table shows, $2 million of this amount would be used in some way for the alternative test sites.

We have many questions about how the federal funds would be used and how the proposed use of these funds relates to the use of General Fund appropriations. For example, the budget does not state if the $2,000,000 budgeted for alternative testing is intended to continue the alternative test site program that is being supported with $2,456,000 in federal funds during the current year. Nor does it indicate how the federal demonstration and research funds proposed for the budget year tie in with the information and education program.

Table 16
Department of Health Services
AIDS Demonstration and Research Projects
1984–85 through 1986–87
(dollars in thousands)

	1984–85	*1985–86*	*1986–87*	*Change From 1985–86*
Demonstration Projects				
HTLV-III alternative test sites	$146	—	$2,000[a]	$2,000
HTLV-III treatment clinical study	—	—	500	500
Cost study (home care)	—	—	750	750
Information and education	—	—	500	500
Research Projects				
Virology/AIDS/Kaposi's Sarcoma	—	$555	600	45
AIDS vaccine study	—	—	420	420
Totals	$146	$555	$4,770	$4,215

Source: Governor's Budget

[a] It is not clear what these funds will support. The budget does not state whether these funds will be used to continue the current $2,456,000 in federal funds for alternative test sites.

We recommend that the department provide a budget change proposal for the $4,770,000 in federal funds that explains in detail how the funds would be used and describes the relationship of these proposed expenditures to other AIDS programs.

Information and Education Projects Need Clarification

We recommend that during the budget hearings, the department explain (1) why it has taken so long to implement the information and education contracts, (2) why the department allotted approximately $481,000 of the information and education funds for what appear to be other purposes, and (3) why two separate monitoring contracts appear in the current-year expenditures. We further recommend that by April 1, 1986, the department provide the Legislature with specified information on the information and education contracts.

The budget requests $4,692,000 from the General Fund for information and education projects. This is the same amount available in the current year.

Table 17
Department of Health Services
1985–86 AIDS Program
Information and Education Projects
General Fund

Program Elements	*Proposed Expenditures*
28 information and education contracts	$3,712,500
Public Health Foundation contract:	646,235
1. Laboratory supplies	(230,000)
2. Surveillance activities	(251,235)
3. Statewide AIDS conferences	(100,000)
4. Monitoring of AIDS contracts	(65,000)
Contract monitoring	83,534
Development of an informational videotape	150,000
AIDS training for emergency services personnel	100,000
Total information and education expenditures	$4,692,269

DEPARTMENT OF HEALTH SERVICES—Continued

The 1985 Budget Act provided $4,250,000 in funding specifically for information and education programs. In December 1985, the department discovered that an additional $442,000 was available for information and education projects. We are unable to determine where the additional $442,000 came from. Table 17 shows how the combined amount available for information and education in 1985–86—$4,692,000—will be used.

Implementation of Information and Education Contracts. The fundamental objectives of the AIDS information and education program are (1) to make individuals who are at high risk of contracting AIDS aware of the ways in which the AIDS virus can be transmitted from one individual to another, (2) to provide information and training to health professionals involved with AIDS patients, and (3) to provide general information to the public. The assumption underlying the information and education program is that there are many individuals in the high-risk communities who do not know which sexual practices and drug-taking practices are dangerous. These individuals need accurate information on the disease as soon as possible so that they do not jeopardize their well-being.

Current law requires an AIDS advisory committee to submit to the department recommendations for using AIDS program funding. Shortly after passage of the 1985 Budget Act, the committee submitted its recommendations for allocating the $4,250,000 available to fund information and education contracts. The committee recommended that the funds be used to support 28 projects that were proposed in response to an RFP that the department sent out in March 1985.

It has taken an unusually long period of time to actually fund these projects. Negotiations over the contract provisions were drawn out. By November 1985, all contracts were in the hands of the contractors for signature or in the hands of the contract management group at the department. By late November, however, five months after passage of the Budget Act, 11 of the 28 contracts still had not been finalized. Two contracts still were not finalized at the time this analysis was written.

There appear to be three major reasons for the delay in finalizing the contracts. First, one person, who was inexperienced in contract preparation, was given the responsibility for negotiating all 28 contracts. Second, the contract approval process within state government evidently does not include a fast track for expediting urgent contracts. Third, some contractors were slow to return signed contracts, thereby delaying the disbursement of funds.

The department decided to contract for both an AIDS videotape and AIDS education for emergency service workers (ambulance drivers and paramedics) through a request for proposal (RFP) process. The RFP for the education of emergency service workers was distributed in December, with a January 1986 deadline for proposals. The department currently is drafting a notice of award. The RFP for the educational videotape had just been distributed at the time this analysis was written. Even so, the department expected to award a contract by the end of February.

Proposed Use of Funds. Table 17 indicates that the department intends to use $230,000 of the 1985–86 information and education funds for laboratory supplies, $251,235 for surveillance activities, and $148,534 to monitor information and education projects.

We question (1) why funds appropriated for information and education projects should be spent on the purchase of laboratory supplies, (2) why $251,000 should be spent from the General Fund for surveillance when $223,000 in federal funds are earmarked for this purpose, and (3) why the Public Health Foundation needs to expend $65,000 to monitor the contracts when the department also has $83,534 allocated for contract monitoring.

We recommend that the department be prepared to address these questions during budget hearings.

Information Needed. Thirty-one AIDS information and education contracts have been, or soon will be, signed. Before it can even evaluate the impact of these contracts, the Legislature will need information on the substance of the contract services to be provided, as well as information on how much is being spent under each contract. The Legislature also needs more information about the Public Health Foundation contract shown in Table 17, since its component parts do not clearly relate to the overall intent of the information and education program.

Accordingly, we recommend that the department prepare and submit to the Legislature summary information about the 31 information and education projects and the Public Health Foundation contract by March 15, 1986.

Implementation of SB 1251 Delayed

We recommend that the department explain to the Legislature (1) why it has taken so long to negotiate sole-source contracts, (2) why three of the projects have not yet been started, and (3) why the RFP process was delayed for the three remaining projects.

Chapter 767, Statutes of 1985 (SB 1251), appropriated $2,060,000 for a number of specific AIDS projects. Table 18 summarizes the individual projects, the amount of funding provided for each, and the current status of each project.

Chapter 767 authorized the department to let *sole-source* contracts so that the projects funded by the measure could be implemented without delay. Nevertheless, contracts for several of the projects have not been executed. The department indicated that the initial responses to its contract proposals were not adequate, thereby significantly increasing the time needed to develop usable proposals. At the time this analysis was written, *the department was considering starting the process over using an RFP process.*

Staffing for the AIDS information network, assessing the availability of support services for persons with AIDS, and developing a clearinghouse for AIDS drug trial information appear to be particularly critical needs. Yet the department so far has failed to start the projects, which the Legislature funded in hopes of meeting these needs. Moreover, the department has not finalized contracts in three other areas where critical needs exist: funding for the treatment of intravenous drug users, community support block grants, and the evaluation of other information and education projects.

We recommend that the Legislature direct the department to explain during budget hearings (1) why it takes so long to negotiate sole-source contracts, (2) why so little progress has been made in implementing three of the projects, and (3) why the RFP process has been so drawn out.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 18
Department of Health Services
AIDS Program
Implementation of SB 1251

Requirement	*1985–86 Appropriation*	*Status*
1. Evaluate the information and education projects	$150,000[a]	• RFP released 1/13/86 • Response received 2/14/86 • Select contractor in March
2. Educate hospital, home health agency, and attendant care workers about AIDS	$250,000	• Negotiation of sole-source contract in progress
3. Community support block grant	$1,000,000	• RFP issued 11/12/85 • Responses rec'ed 12/20/85 • Currently negotiating contracts
4. Treatment of intravenous drug users with AIDS or AIDS-related conditions	$400,000	• Negotiation of sole source contract in progress
5. AIDS cost-of-care study	$200,000	• RFP released 1/13/86 • Responses received 2/14/86 • Select contractor in March
6. Staffing for computerized AIDS information network	$60,000	• Goal is to establish the position by 7/1/86
7. Clearinghouse on status of AIDS drug trials	—	• Project not yet started—subject to staffing
8. Assess availability of support services for persons with AIDS	—	• Project not yet started—subject to staffing
Total appropriation	$2,060,000	

[a] This appropriation is separate from the $83,534 and $65,000 appropriations in the 1985 Budget Act for monitoring information and education contracts.

Alternative Test Site Program Underway

We recommend that the department explain (1) why it is taking so long to adopt a reimbursement rate for the AIDS blood tests, (2) what it is doing to improve participation in the alternative testing program, and (3) what it is doing to assure accessibility of the test services.

The budget proposes to carry over into 1986–87 $4,600,000 appropriated from the General Fund by Ch 23/85 for the alternative test site program. This amount is expected to remain unspent at the end of 1985–86 from the $5,000,000 originally appropriated by Chapter 23. The department also indicates that $2,456,000 in federal funds may be available in 1986–87 to continue federal support for alternative test sites.

Once the AIDS (HTLV-III) virus was isolated, a relatively simple blood test for the presence of AIDS *antibody* (but not the virus itself) was developed that blood banks and plasma centers can use to test all donated blood. Chapter 23, Statutes of 1985 (AB 488), established an alternative testing program so that people who suspect that they may have AIDS can receive blood tests at locations other than blood banks or plasma centers. The intent of the program is both to protect the blood supply from contamination and to assist those who suspect that they have been exposed to AIDS.

In response to Chapter 23, the department required the 31 counties with blood banks to establish alternative test sites. The department sent contracts to the counties in April 1985—less than one month after the legislation was passed. The contracts provided for a reimbursement rate of $11 per test for the first 90 days of the program. The department stated that after the first 90 days, it would (1) survey the counties to determine their actual costs, (2) reconsider the $11 reimbursement rate, and (3) adjust the rate on a retroactive basis if a change was found to be warranted.

The department sent the survey to counties in October—approximately six months after the program was implemented, and three months later than when the department had originally planned to undertake the survey. The responses to the survey indicate that the counties' costs range from $15 to $145, with an average of approximately $37. Thus, the average cost was considerably higher than what the department originally estimated.

We asked the department to explain the significant variance between its initial reimbursement rate and the counties' reported costs. The department indicated that the higher reported costs were due largely to the fact that counties were providing "counseling" to AIDS patients and not "short-term information and referral sessions." (Chapter 767, Statutes of 1985, however, states that the department shall use the alternative testing funds to reimburse counties for preventative education provided to individuals who have the AIDS antibody.) The department indicated that the survey responses also showed some substantial differences in the cost to the counties for the actual laboratory procedure and in the cost of staff used in the programs.

The department has now concluded that the alternative test sites are an appropriate location for providing information and education on AIDS, and has indicated that it will raise the reimbursement rate to approximately $40. At the time this analysis was written, however, the department could not estimate when the adjustment will become effective.

Since the rate adjustment will be retroactive to when the program began, the new rate will significantly reduce the amount of General Fund money available for alternative test sites in the budget year. The budget currently proposes to carry forward an unexpended balance of $4,600,000 from the $5,000,000 appropriated by Ch 23/85 (AB 488). The unexpended balance, however, would be no more than $3,600,000 if the retroactive adjustments are made during the current fiscal year. At the time this analysis was written, we estimated that at least $2 million would be needed in 1986–87 for support of alternative testing (50,000 tests × $40 per test).

Originally, the department estimated that during the first year of alternative testing, about 75,000 tests would be performed. It later reduced the estimate to 66,000 tests. Actual testing, however, has been occurring at a much lower rate. Only 25,337 individuals had been tested through the middle of January 1986. When we project these data forward using the testing rate that prevailed in early January 1986 (approximately 946 visits per week), we conclude that about 37,000 visits will take place during the first 12 months of the program. Further, if the early January 1986 rate continues, approximately 50,000 visits per annum can be expected in the future.

There are four reasons why utilization is lower than originally expected: (1) those in the high-risk groups initially were concerned about the confidentiality and usefulness of the test results, (2) reliable data regarding the true size of the high-risk population are lacking, which allowed overly optimistic estimates of participation to be made, (3) start-up at the county level was slow, and (4) there was not adequate public awareness of the sites.

DEPARTMENT OF HEALTH SERVICES—Continued

After the first three months of the program, 8 of the 31 counties were not operating test sites. By the end of November, however, all but 2 of the counties had programs in operation; and these 2 got their programs off the ground in December.

The most notable delay occurred in Los Angeles County, which did not begin a program until October (although the City of Long Beach began testing in June 1985). To put this delay in perspective, Los Angeles County has approximately one-third of the state's population, has approximately 50 blood banks/plasma centers, and has, by its own estimate, 450,000 high-risk individuals. The delay was, at least in part, due to the county's belief that the $11 per test reimbursement rate was not adequate.

According to department staff, AIDS-related mass-media programs probably generate increased visits to the test sites. The department, however, has no current plans for publicizing the alternative test site program, despite its belief that use of test sites is increased by publicity. It would seem that neither evaluating publicity efforts nor developing plans for making high-risk groups aware of the alternative testing program have been given a high priority by the department.

The department has not made any effort to determine whether the counties are providing enough test sites so that the high-risk populations are adequately served. We have identified considerable disparities among counties in terms of the number of test sites available. Humboldt/Del Norte Counties, for example, with only 131,000 people, operate three test sites, while Santa Barbara, with 315,000 people, operates five test sites. In contrast, Orange County, with 2,072,000 people, has one test site and Los Angeles County, with over 7,800,000 people, has only three test sites, two of which are operated by and located in the City of Long Beach. If the population of Long Beach is excluded, we find that during the first two weeks of January, Los Angeles County was providing AIDS tests at a rate of about five tests per 100,000 population. This placed Los Angeles County in seventeenth place among all participating counties. By comparison, the City of Long Beach was providing 79 tests per 100,000, and San Francisco was providing 58 tests per 100,000 people. These rates placed Long Beach and San Francisco first and second for the period. This disparity in testing rates is particularly significant in that Los Angeles is considered to be one of the three most heavily AIDS-impacted areas in the country (New York City and San Francisco being the other two areas).

Because the lack of sites may hinder the delivery of services to high-risk individuals, we recommend that the department explain what it is doing to assure accessibility of test services in each county.

AIDS Section Slow to Staff Positions

We recommend that the department (1) provide an analysis of the AIDS program workload and staffing plan, (2) explain why it is taking so long to staff the AIDS section, and (3) explain how it intends to use the "salary savings" it has accrued over the first six months of the current year. Further, we recommend that the department explain why it was unable to expedite staffing its programs using the California Public Health Foundation (CPHF).

Our review indicates that the department has been slow to implement some aspects of the AIDS program because of management problems. The root cause of these problems seems to be the difficulties that the department has had in staffing the AIDS section. Eight of the section's 28 authorized positions were unfilled for more than six months into the current fiscal year. Some of the vacancies can be accounted for by employee turnover. Six of the eight vacant positions, however, have *never* been filled. At various times, the department has detailed personnel to the AIDS section from other programs so that work could proceed while permanent staff were being recruited.

Several interrelated factors have contributed to the overall staffing problem. The AIDS section chief and the AIDS program manager were not hired until September, over two months into the current year. Moreover, the CPHF delayed accepting the AIDS contracts in September because it was experiencing some difficulty obtaining payment for other department contracts. This delay set staffing for part of the program back by about one month.

Several contract positions are funded by federal money. Federal funding currently is scheduled to end in April, after several extensions of two months each. Some of the positions were not filled at the beginning of the program, and uncertainty over funding due to the short and repeated extensions of federal funds has made it difficult for the department to find candidates willing to accept the positions. Funds made available by Ch 23/85 can be used to pay AIDS-related staff once federal funds have been exhausted. These funds cannot be used, however, to extend contract employees. As a result, the employee contracts will have to be rewritten at the time state funds are used, creating additional uncertainty within the AIDS section.

Finally, challenges to the use of contract positions in lieu of civil service positions have delayed the filling of positions. Although the State Personnel Board has authorized the contract positions, an employee union requested further investigation of the matter. These challenges took between two and three months to resolve. The contract positions are now being filled.

To facilitate legislative oversight of this important program, we recommend that the department provide (1) 1986–87 workload and staffing estimates for the AIDS program, (2) an analysis of the advantages and disadvantages of contracting with the CPHF, and (3) recommendations as to how the AIDS program can acquire and maintain staff it needs to operate an effective program in the current and budget years.

OTHER PUBLIC HEALTH ISSUES

Statutory Funding Available to Reduce Budget-Year Appropriations

We recommend that the Legislature delete $392,000 requested from the General Fund for the Birth Defects Monitoring program because statutory appropriations are available to support program operations during the budget year.

The Legislature enacted two bills during 1985 that appropriated a total of $1,275,000 from the General Fund to expand the Birth Defects Monitoring program within the state. The proposed budget for 1986–87 shows that the department will spend the full $1,275,000 during the current year.

The DHS estimates that only $883,000 of the $1,275,000 will be needed during the current year to implement these programs. Thus, $392,000 of funds appropriated in 1985 will be available to support the budget-year operations of these programs. For this reason, we recommend a reduction of $392,000 in the amount budgeted from the General Fund.

DEPARTMENT OF HEALTH SERVICES—Continued

Birth Defects Monitoring Expansion Overbudgeted

We recommend that the Legislature delete $392,000 requested from the General Fund for the expansion of the Birth Defects Monitoring program in order to eliminate funds that will not be needed for the efficient operation of the program. We further recommend that, prior to budget hearings, the department submit to the Legislature its plan for collecting birth defect information in Los Angeles County and other counties that do not have birth defect registries.

The budget proposes expenditure of $1,770,000 from the General Fund during the budget year to continue implementation of an 11-county expansion in the Birth Defects Monitoring program that began on January 1, 1986. The budget also requests $397,000 from the General Fund to support expansion of the monitoring program to 21 more counties, beginning on January 1, 1987. This second phase of the expansion would bring the total number of participating counties to 37.

The Birth Defects Monitoring program is designed to track the incidence of birth defects and determine which environmental factors cause birth defects. In order to track birth defects accurately, the department gathers data from a variety of sources so that all defects, some of which may not be evident until more than a year after birth, are detected. Chapters 1137 (AB 1950) and 1147 (SB 694), Statutes of 1985, require the expansion of the Birth Defects Monitoring program from 5 to 16 counties. In addition, Chapter 1137 requires the department to evaluate the need for future expansion of the monitoring system.

Expansion Request Overbudgeted. We reviewed the department's funding request for both the statutorily required 11-county expansion and the 21-county optional expansion. We conclude that the amount requested exceeds the program's operating needs in 1986–87 for the following reasons:

- Salaries for new positions are not budgeted at the minimum step of the salary range, as required in the State Administrative Manual. As a result, 1985–86 and 1986–87 personnel costs are overbudgeted by $284,000.
- One-time equipment purchases included in the current-year expansion plans are erroneously proposed for continuation in 1986–87. This results in a budget-year request that is $75,000 higher than necessary for the operation of the program.
- Funds for an epidemiologic interviewer and temporary-help are included in the proposed budgets, in case additional research is needed to identify patterns of birth defects in the newly added counties. Our review suggests, however, that these expenses will not be needed until January 1987 at the earliest. This is because meaningful data will not be available from the statutorily required expansion of the monitoring program until one year after data collection begins. Without data, additional research will not be possible. Elimination of these expenditures for the first half of 1986–87 would save $33,000.

In total, the department's budget for birth defects monitoring is overbudgeted by $392,000. Therefore, in order to make funds available for meeting other priority need, we recommend that the Legislature reduce by $392,000 the General Fund request for expansion of the Birth Defects Monitoring program in 1986–87.

Future Expansion Plans Unclear. The report on the expansion of birth defect monitoring provided by the department does not address the issue of continued program expansion into additional counties. Los Angeles County, for instance, is not included in the department's expansion plans, even though the county has one-third of the state's population and a large part of the state's manufacturing industries. Since manufacturing processes can expose workers to substances that cause birth defects, collecting birth defect information in Los Angeles County could help reduce the incidence of birth defects in the state's most populous county.

To ensure that the Legislature is adequately informed on the department's expansion plans for birth defects monitoring, we recommend that the department submit to the Legislature prior to budget hearings its plan for collecting birth defect information in Los Angeles and other counties without birth defect registries.

Final Plans for Cancer Registry Not Available

We withhold recommendation on $1,015,000 requested from the General Fund for expansion of the cancer registry program, pending the receipt of the department's revised plans. We recommend the department submit an overdue report containing detailed implementation and expenditure estimates for the revised expansion plan.

The budget proposes a General Fund augmentation of $1,015,000 in order to expand the cancer registry program to an additional 15 counties. The Department of Health Services currently collects data on the incidence of cancer in 18 California counties. The cancer registry is designed to track the incidence of cancers in order to determine whether environmental factors are causing them.

Chapter 841, Statutes of 1985 (AB 136), requires the department to initiate the expansion of the registry statewide by July 1, 1988. The department's proposal, however, does not anticipate statewide expansion of the program. The budget, as introduced, does not reflect the passage of Chapter 841.

Chapter 841 also requires the department to submit to the Legislature an implementation and funding report for statewide expansion of the program by November 23, 1985. The report was not completed at the time this analysis was prepared. The department indicates that once the overdue implementation and funding report is complete, the program's needs for 1986–87 will become clear. At that time, according to the DHS, necessary budget revisions will be proposed through the finance letter process.

Because the department is revising its proposal for expansion of the statewide cancer registry to meet the provisions in state law, we withhold recommendation on the $1,015,000 requested from the General Fund for expansion of the system. We further recommend that prior to budget hearings, the department submit the legislatively required report on implementation and funding plans for the statewide registry.

Department's Contracting Proposals Lack Justification

We recommend that the department hire state civil service employees, instead of contracting for the Birth Defects Monitoring and Cancer Registry programs for a savings of $307,000 from the General Fund. We further recommend establishment of 48 civil service positions and adoption of Budget Bill language prohibiting the department from contracting for the expansion of these programs.

The budget proposes to expand the Birth Defects Monitoring and Can-

DEPARTMENT OF HEALTH SERVICES—Continued

cer Registry programs in 1986–87 by contracting with nonprofit agencies for the delivery of services. In total, the budget proposes to expend $3,178,000 from the General Fund on contracts that would support approximately 48 additional positions.

Current law establishes guidelines for the types of activities that may be performed under contracts with nonstate agencies. The general conditions under which contracting is permissible are as follows:

- The services are not available within civil service.
- The services are part of a new function.
- The services are temporary or occasional in nature, and timely delivery is critical.

In addition, contracting to achieve savings is permissible under specified circumstances.

Our review of the birth defect and cancer registry proposals indicates that the contracting proposal probably does not meet statutory requirements, because:

- ***Proposed services are available within civil service.*** New staff will be used primarily to collect health data and interpret the data by searching for trends in the incidence of cancer or birth defects. The department currently employs state staff who perform these functions. In fact, contract personnel would work side-by-side with state civil servants of the same classification.
- ***Proposed services would expand on currently provided services.*** The budget does not propose new programs, but additions to existing programs. Therefore, the activities proposed to be contracted do not represent a new state function.
- ***The program expansions would increase the state's permanent full-time workload.*** The expanded data collection systems are proposed as permanent additions to state responsibilities. The data collection and analysis workload is not temporary or occasional in nature.

In addition, our analysis indicates the budget does not anticipate administrative savings from contracting. The birth defect monitoring proposal estimates that contractors will charge the state an amount averaging 26 percent of total personnel and operating costs, in order to cover overhead costs. In comparision, DHS overhead costs average approximately 8 percent of program costs. Thus, the state could save approximately $307,000 per year in overhead costs by assigning state staff to operate the program rather than contracting for services.

In light of these additional costs, we asked the department to explain why it believes that contracting is appropriate. The DHS advises us that contracting would provide "increased flexibility" that would permit increased "program effectiveness." No documentation of these benefits was provided to us, however. The department also pointed out that Ch 841/85 (AB 136), which requires expansion of the cancer registry, allows contracting to collect cancer data. The statute does not, however, require the department to contract for such services.

Because contracting will cost significantly more than if the state employs civil servants to provide the services, we recommend that the Legislature (1) reduce the amount budgeted from the General Fund by $307,000 and (2) authorize 48 new civil service positions for the department. The reduction would not reduce the level of activity under the

Birth Defects Monitoring and Cancer Registry programs, it simply reflects the savings in overhead to be gained from using state staff to administer the programs. We further recommend that the Legislature adopt Budget Bill language prohibiting the department from contracting for the expansion of these programs. The following language is consistent with this recommendation:

"The Department of Health Services shall not execute contracts for the operation of any part of the Birth Defects Monitoring program or the Cancer Registry program."

Information on Vaccine Purchases Needs a Shot in the Arm

We withhold recommendation on a proposed $550,000 augmentation from the General Fund for the purchase of polio vaccine, pending the submission of additional information. We recommend that the Legislature reduce by $98,000 General Fund support for the purchase of pneumococcal vaccine because the funds will not be needed until 1987–88.

The budget proposes a $1,504,000 General Fund augmentation for vaccine purchases in the budget year. This augmentation supports the following four initiatives:

- ***$550,000 for polio vaccine***—these funds would allow the DHS to purchase the same amount of polio vaccine, in spite of anticipated price increases.
- ***$554,000 for hemophilus vaccine***—these funds would be used to purchase a newly developed vaccine that reduces the incidence of influenza in young children.
- ***$224,000 for pneumoccocal vaccine***—these funds would be used to determine whether significant numbers of elderly individuals can be successfully immunized against the pneumonia virus during a two-year trial period.
- ***$150,000 for baby track program expansion***—these funds would be used to increase the percentage of basic immunizations to infants who are born to teenage mothers.

Polio Funding Needs Uncertain. Increases in the cost of polio vaccine will reduce the amount of vaccine the state can purchase within the current funding level. In addition, the department indicates that supplemental federal funds for vaccines may not be available in 1986.

Our review indicates that information on the price of polio vaccine and the availability of federal funding in 1986–87 is not sufficient to support a specific augmentation at this time. While the federal govenment indicates that vaccine prices will increase in the budget year, the specific price will not be established until March 1986. Once the price is known, the department can calculate its funding needs more accurately.

In addition, supplemental federal funds may be forthcoming during 1986. In the past, the federal government awarded the state approximately $600,000 in supplemental funding for vaccine purchase, which allowed the state to stockpile vaccine for the following fiscal year. Although the department does not expect the federal government to distribute supplemental vaccine grants this spring, more information will be available to the Legislature by the time of budget hearings.

Accordingly, we withhold recommendation on the $550,000 General Fund augmentation for polio vaccine pending the receipt of updated information on the cost of polio vaccine and the availability of federal funding for vaccine purchase.

DEPARTMENT OF HEALTH SERVICES—Continued

Pneumococcal Trial Needs One-Year Funding. The budget proposes a $244,000 augmentation from the General Fund for the support of a two-year trial program to determine whether a newly developed anti-pneumonia vaccine can be delivered to a significant number of high-risk elderly individuals. At the end of the two-year period, the department plans to determine whether the program successfully reached the target group in significant numbers. During the first year of the trial, the department hopes to reach up to 15 percent of the target group; during the second year, it hopes to reach an additional 10 percent.

Our review indicates that the 1986–87 budget requests funding for *both* years of the project. This would give the DHS sufficient funds to meet larger than anticipated demand during the first year of the trial.

We recommend that funds for the second year of the two-year program be provided in next year's budget. As proposed, the budget essentially is seeking contingency funding. Funds for contingencies statewide are already budgeted in another item. Thus, these funds are not warranted in this item. For this reason, we recommend reduction of $98,000 from the General Fund proposed for the support of the two-year pneumococcal vaccine trial, making this amount available to fund other legislative priorities.

Marine Pollution Study Awash in Funds

We recommend that the Legislature adopt Budget Bill language reverting to the Federal Trust Fund $276,000 in federal Outer Continental Shelf Lands Act funds not needed for a study of marine pollution in Santa Monica Bay.

The budget proposes to spend $650,000 in 1986–87 to continue a study of fish contamination in the Santa Monica Bay and Long Beach Harbor.

Chapter 1440, Statutes of 1985 (AB 1024), appropriated $1.3 million in federal Outer Continental Shelf Lands Act funds to support a one-time study of marine pollution and related health risks associated with eating contaminated fish. The budget proposes to spend half of this amount—$650,000—in 1985–86 and the other half in 1986–87.

The study is intended to shed light on how pollution affects fish in the Santa Monica Bay/Los Angeles-Long Beach Harbor. The study will measure the levels of contaminants in fish during different seasons of the year and will investigate the health effects on a small group of individuals who frequently eat fish that are caught in polluted waters.

Our review of the department's proposal indicates that the estimated cost of the study is $1,024,000, or $276,000 less than what is proposed in the budget. The department advises that $276,000 may be used to support an unknown number of additional marine studies in other areas of the state. At the time this analysis was written, however, the department had not committed these funds to any specific use.

Since the department has no specific plans to use these funds, the Legislature should revert them.

The Outer Continental Shelf Land Act funds are different than most federal funds, because they can be used to support almost any state expenditure. By reverting these uncommitted funds to the Federal Trust Fund on July 1, 1986, the Legislature can increase the amount available to support its priorities. To accomplish this, we recommend adoption of Budget Bill language, as follows:

"The Department of Finance shall, on July 1, 1986, revert to the Federal Trust Fund $276,000 from the federal Outer Continental Shelf Land Act funds appropriated to the department by Chapter 1440, Statutes of 1985."

Dental Program to Sunset

We recommend a General Fund reduction of $804,000 to reflect the termination of the Children's Dental Disease Prevention program on December 31, 1986.

The budget proposes $1.6 million from the General Fund for the support of the Children's Dental Disease Prevention program during the budget year. This program provides dental education and prevention services to children from kindergarten through sixth grade. Current law sunsets the program on December 31, 1986.

Unless legislation is passed to extend the program, the department will not require funding for the second half of 1986–87. (Senate Bill 111 (Carpenter) would extend the life of the program and expand the scope of services.) Such legislation would provide the appropriate vehicle for determining the program's funding requirements in the second half of 1986–87.

Accordingly, and without prejudice to the program, we recommend that the Legislature delete $804,000 requested from the General Fund and defer action on continued funding until it considers legislation extending the program.

Pesticide Residue Report Due

We recommend that prior to budget hearings, the department submit its proposal for testing processed foods for chemical and pesticide residues. We further recommend that detailed budget and implementation schedules accompany its proposed plan.

Chapter 1243, Statutes of 1984 (AB 2277), required the Department of Health Services to report to the Legislature by September 1, 1985, on its program for monitoring processed foods for chemical and pesticide residues. At the time this analysis was prepared, the report had not been submitted to the Legislature. In addition, the budget does not include funds for the department to monitor pesticide and chemical residues.

According to the DHS, the report would be available in February 1986. *To assure that* the Legislature *has the information* it needs to act on this matter, we recommend that the department include in its report detailed budget and implementation schedules.

Additional Staff for Certification of Hazardous Waste Labs Not Needed

We recommend that the Legislature delete four proposed new laboratory positions and $194,000 from the HWCA because additional staffing will not be needed to inspect private hazardous waste laboratories.

The budget proposes to augment the Laboratory Division's budget by $194,000 from the Hazardous Waste Control Account (HWCA) to provide staff needed to certify that private laboratories are competent to test hazardous wastes. With limited exceptions, state hazardous waste law requires that only certified laboratories analyze hazardous materials. The statute also requires reassessment of laboratories every two years. According to the department, 150 laboratories have expressed an interest in certification. In order to certify 150 labs in one year, the department estimates that it needs four additional chemists.

DEPARTMENT OF HEALTH SERVICES—Continued

New Staff Not Needed. Our review indicates that the department will not need additional staff in the budget year, for two reasons. First, the state laboratory already devotes two full-time chemists to the certification program. According to the department's workload material, these two chemists could certify 50 laboratories during 1985–86. Second, only 65 laboratories—not 150—have actually applied for certification as of January 1, 1986. Therefore, if current staff certify 50 of the 65 existing applications during 1985–86, only 15 certifications would remain to be completed in the budget year. Based on the department's own workload statistics, the two existing positions could easily certify the remaining 15 laboratories, plus a large number of additional laboratories that might apply for certification in the last half of 1985–86 and 1986–87.

Because additional staff are not justified by the state laboratory's projected certification workload, we recommend deletion of the four proposed new positions and $194,000 from the HWCA.

4. TOXIC SUBSTANCES CONTROL

A. OVERVIEW

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

Budget Request

Table 19
Department of Health Services
Toxic Substances Control Division
Expenditures and Funding Sources
1984–85 through 1986–87
(dollars in thousands)

Expenditures	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Change 1986–87 Over 1985–86 Amount*	*Percent*
Support	$35,034	$143,945	$40,401	−$103,544	−71.9%
Special projects	19,281	39,794	32,605	−7,189	−18.1
Totals	$54,315	$183,739	$73,006	−$110,733	−60.3%
Funding sources					
General Fund	—	$15,000 [a]	—	−$15,000	−100.0%
Hazardous Substances Cleanup Fund	—	91,985 [b]	$3,986	−87,999	−95.7
Hazardous Waste Control Account	$8,800	4,136 [c]	18,255	14,119	341.4
Hazardous Substance Account	14,026	16,719	14,036 [d]	−2,683	−16.0
Hazardous Substance Operations and Maintenance Account	647	1,325	55	−1,270	−95.8
Hazardous Waste Injection Well Account	—	—	120	120	100.0
Federal Trust Fund	30,842	54,574	36,554	−18,020	−33.0

[a] One-time statutory appropriation to clean up Stringfellow site.
[b] Increase reflects appropriation of one-time bond act funds.
[c] Decrease reflects one-time availability of federal Outer Continental Shelf Land Act funds.
[d] Decrease primarily reflects decreases in responsibility party collections.

The budget proposes expenditures of $73,006,000 (all funds) for the toxics division in 1986–87, including expenditures for program support and special projects. This is a decrease of $110,733,000, or 60 percent, below estimated current-year expenditures. The decrease primarily reflects a one-time appropriation of bond act funding in the current year that is targeted for site characterization and cleanup costs which will continue into the budget year. These funds were appropriated by Chapter 1439, Statutes of 1985 (AB 129) and, therefore, need not be reappropriated in the budget.

The budget proposes a total of 425 positions for the division in 1986–87, which is an increase of 88.5 positions above the 1985–86 authorized staffing level. This increase reflects the budget's request for 93.5 new positions for permitting and inspecting hazardous waste facilities and other activities minus 5 positions that were administratively authorized in the current year to implement legislative initiatives.

Table 19 displays the expenditures and funding sources for the toxics division in the prior, current, and budget years.

Table 20 displays the changes proposed in the toxics division support budget for 1986–87. The net reduction of $103.5 million results from large *one-time* appropriations in the current year that are partially offset by increases proposed for 1986–87. As Table 20 illustrates, the two largest one-time appropriations made in 1985–86 were (1) $87.8 million in cleanup funds from the November 1984 $100 million bond act and (2) $15.0 million for cleanup of the Stringfellow hazardous waste site.

The increases proposed for the budget year provide for implementation of legislative initiatives, as well as departmental proposals to strengthen the division's existing programs. Major legislation that is addressed in the 1986–87 budget includes:

- ***Abandoned Site Survey.*** The budget requests $313,000 from the General Fund to continue searching for additional toxic waste, primarily in industrial facilities that are no longer used.
- ***Waste Reduction.*** Chapter 1030, Statutes of 1985, enacted a waste reduction demonstration program designed to find ways of encouraging business to generate less wastes. The budget proposes $1,000,000 from the Hazardous Waste Control Account (HWCA) to continue this program in 1986–87.

In addition to new legislation, the DHS proposes to augment its budget in the following ways:

- ***Permitting and Enforcement Staff Increase.*** The budget proposes an augmentation of $2,848,000 from the HWCA to fund 84.5 positions for permitting and inspecting of hazardous waste storage and disposal facilities in 1986–87.
- ***Emergency Response Staff Augmentation.*** The budget proposes an augmentation of $55,000 from the HWCA and 2 positions to increase the department's ability to respond to emergency spills of toxic wastes.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 20
Department of Health Services
Toxic Substances Control Division
Proposed Support Budget Changes
(dollars in thousands)

	Positions	*Amount*	*Fund* [a]
1985–86 expenditures (Budget Act)	336.5	$143,945	Various
Baseline Adjustments:			
1. Salary increases		668	Various
2. Workload adjustments		–1,270	Various
3. Elimination of one-time expenditures		–756	Various
4. Increase in department overhead		80	Various
5. Elimination of statutory appropriations			
a. Hazardous waste bond act site cleanup support		–87,791	HSCF
b. Stringfellow matching funds		–15,000	General
c. Other statutory appropriations	–3.0	–1,265	Various
6. Administratively established positions	–2.0	—	
7. Federal funding reduction		–10,000	Federal
8. Deletion of "expenditure reduction"		10,000	HWCA
9. Reduction in available bond act support		–782	HSCF
10. Reduction in responsible party support		–2,924	HSA
11. Unexplained adjustments		923	
Total adjustments	–5.0	–$108,117	Various
Program change proposals:			
1. Decision tree automation		$176	HWCA
2. Increase RCRA inspection staff	20.0	651	HWCA
3. Increase RCRA permit staff	64.5	2,197	HWCA
4. Staff recruitment contract		50	HWCA
5. Increase in temporary help		11	HWCA
6. Hauler registration	2.0	55	HWCA
7. Disposal technology grants	3.0	1,000	HWCA
8. Regulation of injection wells		120	HWIWA
9. Abandoned site search	5.0	313	HWCA
10. Reduction in supervision	–1.0	—	
Subtotals	93.5	$4,573	Various
1986–87 expenditures (proposed)	425.0	$40,401	Various
Change from 1985–86			
Amount	88.5	–$103,544	
Percent	26.3%	–71.9%	

[a] HSCF—Hazardous Substance Cleanup Fund
HWCA—Hazardous Waste Control Account, General Fund
HWIWA—Hazardous Waste Injection Well Account, General Fund
HSA—Hazardous Substance Account, General Fund

Table 20 shows two adjustments that require additional comment. First, it shows $10 million being added in the budget year from the HWCA in order to offset an "expenditure reduction" during 1985–86. According to the department, this expenditure reduction was caused by a $10 million statutory appropriation to the account made by Ch 1440/85 (AB 1024). For some reason, these funds reduced current-year appropriations, rather than increased revenues to the account as one would expect to be the case. The department could not explain why the additional funds had the effect of reducing HWCA expenditures. As a result, however, the budget shows the department spending −$8.9 million on site mitigation from the HWCA in 1985–86.

Second, we have included an entry in the table entitled "unexplained adjustments." This entry reflects our inability to balance the division's budget with information made available by the department. We plan to work with the department to resolve this confusion.

B. THE BOND PROGRAM

With the passage of Ch 1439/85 (AB 129), the Legislature authorized the department to spend $87.8 million in voter-approved bond funds to clean up hazardous waste sites. Under the act, the department can use funds to characterize sites (that is, to determine the type and extent of contamination) and mitigate (clean up) the contamination once a remedial action plan for that site is developed and approved. In this section, we discuss three significant policy issues involving the cleanup program. (For a further discussion of the mitigation program, please see *The 1986–87 Budget: Perspectives and Issues, Part III.*)

State Gives Up Responsibility for Sites on the National Priority List

We recommend that prior to budget hearings, the Department of Health Services advise the Legislature of (1) the Environmental Protection Agency's schedule for mitigating sites in California that currently are on the national priority list and (2) the DHS plans for turning over to the federal government responsibility for mitigation activities at sites in California that are on the national cleanup priority list.

The department expects the federal Superfund program to support the cleanup of 53 hazardous waste sites in California. Under the program, the state can elect to take administrative responsibility for the cleanup of one or more sites on the federal list. When the state takes the lead at federal sites, the federal role is reduced to monitoring the state's progress. Should the state turn down the opportunity to take the lead at any federal site, the federal government assumes responsibility for the site, and the state adopts a monitoring role.

New Policy on Federal Sites. Until recently, the state assumed responsibility for cleanup of federal sites in California. Generally, sites on the federal list were treated in the same way as sites on the state list. The source of funding for cleanup activities was the primary difference between federal and state sites.

The department recently revised its policy toward federal sites, as follows:

- The state will *not* take the lead at any more federal sites.
- The state gradually will return administrative responsibility to the federal government at those sites where the state currently has the lead. According to the department, this responsibility will be returned to federal government as soon as the current phase of mitigation activities at each site are completed.

The department states that the new policy is designed to maximize the use of state personnel. The DHS will redirect state staff currently working on federal sites to activities at state sites. In addition, the department hopes that the federal government will increase staff working on federal sites to offset the loss of state staff. The department believes that this change would maximize total manpower—both federal and state—working on site remediation in California.

DEPARTMENT OF HEALTH SERVICES—Continued

We have two concerns with this new policy. First, by foregoing the lead role, the state loses control over cleanup schedules. Instead of the DHS determining cleanup schedules, the federal Environmental Protection Agency (EPA) will establish the pace of cleanup activities. The DHS could not advise us when the federal government plans to begin cleanup actions at most sites. As a result, remedial action at federal sites could be delayed.

Second, removing state staff who currently work on federal sites also could delay progress at these sites. Due to the complexity of some cleanup operations, state staff have administered cleanup actions at some federal sites for a *number of years.* In the process, these staff have accumulated expertise in the site mitigation area generally and in the problem that exists at specific sites. While the federal government can hire experts to continue cleanup activities at federal sites, it cannot hire individuals possessing the same *site* expertise as current state staff. As a result, unless the DHS carefully plans the transition, the change in policy could seriously impede future progress at federal sites.

So that the Legislature will be informed of the federal government's plans to clean up federal sites in California and to insure a smooth transition from the state to federal leadership, we recommend that prior to budget hearings, the department advise the Legislature regarding (1) the EPA's planned schedule for mitigating sites in California currently on the national priority list and (2) the department's plans for turning over to the federal government responsibility for mitigation activities at sites in California that are on the national cleanup priority list.

Department Fails to Notify Legislature of Changing Site Responsibility

The 1985 Budget Act requires the department to notify the Legislature whenever a change occurs in lead responsibility for cleanup at a particular site. According to the DHS, lead responsibility for three state sites has been transferred to the federal government during the current year. The Legislature, however, was not informed of this change or the reasons for it. The department should be prepared to explain during budget hearings why it failed to notify the Legislature.

Responsible-Party Relieved of Fiscal Responsibility

We recommend that the Legislature adopt legislation reversing the department's policy of exempting responsible parties from further liability at sites that are cleaned up to the levels established by the department. We further recommend that this legislation require the department to inform responsible parties that financial liability for remediating hazardous waste sites does not necessarily end with the successful completion of a cleanup project which is based on current health-impact data.

Current departmental policy exempts responsible parties from continuing liability for site contamination upon the successful completion of an approved mitigation plan. The department indicates that since the DHS sets site cleanup levels, it is only fair to free responsible parties that have executed cleanup agreements from further liability. The policy also encourages responsible parties to pay for site cleanup as a way of limiting future liability for a hazardous waste release.

The department's policy, however, may transfer future cleanup liability to the state if it is determined that current cleanup levels do not adequately protect public health. Recognizing this, the federal Superfund program does not limit responsible-party liability.

The size of any secondary cleanup liability resulting from the department's policy will depend on (1) whether current cleanup standards turn out to be adequate as additional research regarding the effects of toxic chemicals becomes available and (2) whether the department actually can limit responsible-party liability. Most scientists agree that the ability of science to accurately assess the health risk posed by toxic chemicals is, at best, poor. Indeed, at a recent conference examining the use of risk assessment in setting cleanup levels, one scientist voiced the general feeling at the conference when he asked, "Considering the great amount of uncertainty in the process, and its potential for huge error, is it justifiable to use risk assessment at all?"

Given the limited ability of science to assess health risks caused by toxic chemicals, the department's policy may result in a significant future financial liability to the state.

It is not clear how the department intends to apply its liability exemption. Current cleanup agreements negotiated with responsible parties do not contain language either exempting firms or explicitly recognizing state liability for secondary cleanup. Lack of explicit contractual language may be interpreted by some firms as an implicit forgiveness of future liability. Even if the DHS policy is not legally enforceable, responsible parties would be able to argue that the department's policy misled them into believing that cooperating with the state would terminate their long-term liability. Under those circumstances, the Legislature may feel bound to honor the department's policy commitments.

Thus, the department's policy may result in substantial future state outlays even if the commitments made to responsible parties are not binding.

Because of our knowledge concerning the health effects of most chemicals is limited, the state is taking a large risk in assuming liability for potential secondary cleanup costs. To avoid this risk, we recommend that the Legislature adopt legislation reversing the department's policy of exempting responsible parties from liability at sites that have been cleaned up to the levels established by the department. We further recommend that legislation require the department to include as part of each responsible party cooperative agreement an enforceable provision stating that financial liability for remediating hazardous waste sites does not necessarily end with the successful completion of a cleanup project that is based on current health-impact data.

Alternatives to Land Disposal Needed

We recommend that, prior to budget hearings, the Department of Health Services submit to the Legislature its plan for stimulating the development of waste disposal techniques that could reduce the need for land disposal capacity in the state.

Land disposal constitutes the primary way of storing society's most hazardous materials. The land disposal concept is simple—dig a hole and bury the toxic substance, or if the material comes in liquid form, let the liquid wastes evaporate so that only the solids remain in the land.

The future of land disposal for extremely toxic materials is, at best, uncertain. Federal law banned land disposal of specified types of liquid wastes as of May 1985, for example. In addition, the number of landfills operating in the state has declined dramatically in recent years. Currently, only two landfills—both located in the northern part of the state—accept all types of wastes without restriction.

DEPARTMENT OF HEALTH SERVICES—Continued

Of the three landfills located in the southern half of the state that recently accepted extremely hazardous wastes, one is permanently closed to hazardous wastes, one is restricted to accepting solid hazardous wastes, and the third site is accepting limited amounts of all types of hazardous wastes. As a result of these restrictions on landfill operations in southern California, large amounts of wastes must be transported to landfill sites in northern California or to other states.

Soon there may be no hazardous waste landfills in California to accept any type of extremely hazardous materials. According to the department, the remaining landfills that accept all types of hazardous wastes may close down within the next few years because of (1) leaking that allows the escape of hazardous substances into the environment or (2) public pressure. Indeed, the Legislature expressed its concern regarding land disposal for hazardous wastes in SB 470 (Roberti). The bill, which was vetoed by the Governor, would have prohibited disposal of hazardous wastes by specified land disposal methods after January 1, 1989.

The availability of adequate disposal capacity is crucial to the state's cleanup of hazardous waste sites. One of the planned ways to clean up sites requires the removal of contaminated dirt to an appropriate landfill. If no landfill capacity exists within the state, however, the success of that strategy depends on either (1) shipping the dirt to a disposal site in another state, (2) treating the dirt so that it could be disposed as nonhazardous waste, or (3) using alternate disposal or recycling techniques.

The toxics division's alternative technology efforts are not concentrating on alternative disposal techniques. Instead, the division's resources are focused on reducing the *generation* of hazardous wastes at the source and recycling waste for reuse. While efforts to reduce the generation of waste are extremely important, the need for future disposal methods cannot be ignored. In fact, our ability to remediate hazardous waste releases may depend on the availability of currently unknown or untested disposal or treatment technology.

Because adequate disposal capacity is so important to business as well as to the state's hazardous waste cleanup program, we recommend that prior to budget hearings, the department inform the Legislature of its plan for stimulating the development of waste disposal techniques so that future reliance on land disposal can be minimized.

C. HAZARDOUS WASTE MANAGEMENT

State's Permitting Effectiveness Is Under Scrutiny

We recommend that prior to budget hearings, the department prepare a report for the Legislature which (1) outlines the federal government's preliminary assessment of the state's performance, (2) indicates whether the federal EPA needs more time to evaluate the state's performance in specific areas, and (3) estimates when the federal government will grant the state final administrative authority under the federal Resource Conservation and Recovery Act.

The Toxic Substance Control Division administers the federal Resource Conservation and Recovery Act (RCRA) program to monitor the treatment, storage, transportation, and disposal of hazardous wastes. Under the RCRA, the department inspects and licenses facilities handling hazardous wastes in order to insure that contaminants do not escape into the environment. In addition, the DHS tracks the transportation and disposal of wastes using a "cradle to grave" manifest system.

The federal government granted California interim authority to administer portions of RCRA law in 1981 and 1983. Authority was not granted, however, to issue permits to facilities that dispose hazardous wastes on land. Under federal law, the state can assume responsibility for administering the entire RCRA program once the federal EPA certifies the state.

The EPA does not automatically certify states. State application to the EPA for full RCRA authority initiates an evaluation process that takes six months or more to complete. To receive final authority, the EPA requires the department to demonstrate that (1) state hazardous substance control laws are at least as stringent as federal law and (2) state agencies possess the capability to adequately enforce RCRA statutes. Federal law requires states to receive final authority approval by January 31, 1986. If a state does not receive final authorization, its interim authority is rescinded by the EPA.

California Did Not Meet the Federal Deadline. California applied for final RCRA authority on November 7, 1985. Because the certification process takes at least six months, the state will not receive EPA certification until after the January 31, 1986, deadline. As a result, the EPA will be required to assume administration of RCRA in California. Once the state receives final authority, the DHS will again act as the lead agency in administering the law.

In the short run, neither the EPA nor the DHS expects the loss of RCRA administrative authority to change current operating procedures significantly. Clearly, some changes may occur. Legally, for instance, the DHS may not be able to formally issue RCRA waste treatment or disposal permits. The EPA advises, however, that so long as the state continues working to achieve certification, state hazardous waste control activities—such as inspections and permit reviews—will be accepted by the federal government for the purposes of the RCRA program.

If the state has not received final administrative authority by June 30, 1986, additional changes may occur. At that time, the EPA could assume administration of the entire RCRA program in the state. This would mean the loss of $3.9 million in federal RCRA funds. Under federal administration, the EPA would permit and inspect programs and control the manifest system that tracks the handling of wastes. In addition, to the extent that state waste control law is more stringent than federal law, the DHS would be required to set up and administer state-only permitting and inspection programs.

Results of Capability Assessment Due Soon. Neither the state nor the federal government wants the EPA to permanently rescind the state's RCRA administrative authority. According to the EPA, however, the state must demonstrate that its program meets federal standards before the state will be certified.

A key element in obtaining certification will be convincing the EPA that the state is able to adequately administer and enforce the law. A performance test—known as the capability assessment action plan—has been designed to measure the state's administrative capacity.

Preliminary results of the capability assessment should be available soon. The assessment period covered the first half of the state fiscal year—July 1 through December 31, 1985. According to the EPA, a preliminary assessment probably will be made available in mid-March; the final decision on the state's capability will be rendered in June. The agency advises that these dates may slip if the state does not meet its assessment goals and

DEPARTMENT OF HEALTH SERVICES—Continued

an additional assessment period is needed.

RCRA Capability Assessment Status. According to the EPA, evaluating the assessment data involves a two-step process. First, the agency determines whether the state agencies met the agreed-upon performance goals. For example, did the department inspect at least 35 major hazardous waste facilities? Second, the EPA evaluates the quality of the state's performance by determining how thoroughly state inspections reviewed each facility's hazardous waste control procedures. At the time this analysis was written, EPA had not reviewed the state's data for either quality or quantity.

The department did provide us with its own assessment of its performance during the assessment period. Table 21 displays EPA performance targets and the state's actual performance during the capability assessment period. As the table indicates, the state generally met or exceeded its performance targets. The state was successful in meeting its targets for record reviews, for example.

During a record review, the DHS checks a facility's on-site documents to ensure that required information is available and up-to-date. Except for reviewing groundwater monitoring reports, the department exceeded its EPA performance target for record reviews. (Groundwater reports were not due to the EPA at the time this analysis was written.) The state reviewed 36 closure plans, instead of the required 35, and 62 financial assurance plans of smaller facilities, instead of the required 50. The state also exceeded performance targets for permitting of land disposal sites. Eight land disposal permit applications were reviewed for completeness to ensure that all required information was submitted and that facility operations were in accordance with statute. The EPA required only 7. The capability plan called for the department to review 4 closure plans for completeness, and the state actually reviewed 7.

Table 21

Department of Health Services
RCRA Permitting and Enforcement Program
State Performance During Capability Assessment

Performance Measure	*EPA Target*	*Actual State Performance*
Record reviews		
Closure plans	35	36
Financial assurance plan reviews		
Major Facilities	30	32
Other facilities	50	62
Groundwater monitoring reports	35	22[a]
Permitting land disposal facilities		
Completeness reviews	7	8
Closure plan completeness reviews	4	7
Inspections		
Major facility inspections	35	46
Groundwater monitoring at major facilities	10	—[a]
Federal disposal facility inspections	19	15
Enforcement		
Enforcement action pursuant to state water board inspection report	1	5
Number of enforcement actions taken within 75 days of inspection	—	2

[a] Data not complete.
Source: Department of Health Services.

In the inspection and enforcement areas, the state experienced more difficulty in meeting EPA performance targets. The 46 major facility inspections—inspections that require groundwater monitoring—far outstripped the EPA target of 35. Inspections of groundwater monitoring and federal disposal facilities, however, fell short of the assessment goals (although state activity data covering groundwater monitoring were not complete). The state's enforcement record during this time also was mixed. While the state conducted five enforcement actions based on state water board inspections, only two of those actions fell within the required 75-day period.

The Department of Health Services believes that the state successfully demonstrated its ability to administer the federal RCRA program during the capability assessment. The department also indicated that in light of the state's performance, even if the state does not meet all performance targets, the deficiencies would not be sufficient for the EPA to deny the state final RCRA authority. More information on the outlook for certification should be available during budget hearings since the federal government is expected to evaluate the state's performance and issue its preliminary assessment in March.

To keep the Legislature informed on the state's RCRA status, we recommend that the department submit prior to budget hearings, a report that (1) outlines the federal government's preliminary assessment of the state's performance, (2) indicates whether the EPA will require an additional assessment period to further evaluate the state's performance in specific areas, and (3) estimates when the federal government will grant the state final RCRA authority.

Permitting and Inspection Workload Is Not Clearly Defined

We withhold recommendation on the requests for $3.7 million from the Hazardous Waste Control Account and 96.3 positions, pending the receipt of a plan, jointly developed by the department and the State Water Resources Control Board, that outline agency responsibilities, workload, and implementation timelines for permitting and inspecting of current unregulated hazardous waste disposal pits. We further recommend that the department account for all of the permitting and inspection positions authorized by prior budgets when it submits its plan.

The Department of Health Services proposes to add $3.7 million from the Hazardous Waste Control Account (HWCA) and 96.3 positions in order to increase RCRA permitting, inspection, and enforcement activities. This additional support would be divided between the toxics division ($2.8 million and 84.5 positions) and the Division of Laboratories ($850,000 and 11.8 positions).

According to the department, 1,300 unregulated hazardous waste disposal facilities were discovered by the State Water Resources Control Board as a result of a state-mandated notification process initiated in 1984. These facilities require permits under federal RCRA law and the state Toxic Pits Cleanup Act enacted by Chapter 1543, Statutes of 1984 (AB 3566). The federal statutes are administered in the state by the DHS and the state water board. Under the state toxic pits program, only the water board is required to regulate the operation of hazardous waste disposal ponds. To carry out its responsibilities under the RCRA at the newly

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discovered 1,300 sites, the DHS is requesting additional staff to permit, inspect, and enforce hazardous waste control statutes.

Table 22 displays the department's request for additional staff. The department's proposal for additional staff resources is composed of two separate requests. First, the department seeks an additional 71.4 positions and $2,590,000 from the HWCA to increase its permitting capabilities. Of this amount, 6.9 positions and $393,000 would provide for additional support from the Division of Laboratories for chemical analysis of samples taken as part of the permitting process. The remaining 64.5 toxics division positions and $2,590,000 would support processing of operating permit applications and activities ensuring that site operations conform with state and federal hazardous waste control laws.

Table 22
Department of Health Services
Proposed Augmentations to the Permitting, Inspection, and Enforcement Program, 1986–87
(dollars in thousands)

	Division of Laboratories		*Toxic Substance Control Division*		*Total*	
Activity	*Dollars*	*Positions*	*Dollars*	*Positions*	*Dollars*	*Positions*
Permitting	$393	6.9	$2,197	64.5	$2,590	71.4
Enforcement and inspections	457	4.9	651	20.0	1,108	24.9
Totals	$850	11.8	$2,848	84.5	$3,698	96.3

Second, the DHS requests 24.9 positions and $1.1 million from the HWCA in staffing and operating expenses for additional workload associated with inspection and enforcement activities in connection with the 1,300 unregulated facilities. Of this amount, $457,000 and 4.9 positions are requested for the Division of Laboratories to supply needed laboratory analysis of samples taken during inspection and enforcement activities. The remaining 20 positions and $651,000 would support increased toxics division staffing levels for these activities.

The additional toxics division staff would greatly expand current manpower dedicated to implementing RCRA law in the state. The addition of 64.5 positions in the permitting area would balloon the department's staffing levels from 70.2 positions to 134.7, an increase of 92 percent. By adding 20 positions to the department's inspection and enforcement capabilities, the budget would increase its staff from 82 to 102 positions—a 24 percent augmentation.

Staffing Estimates Need Additional Refinements. After reviewing the department's proposals for additional RCRA staff, we are convinced it needs additional manpower. Nevertheless, the DHS requests need additional refinement before the Legislature can determine the specific number of dollars and positions needed. We reach this conclusion for the following reasons:

- ***Adequate Workload Data Are Not Yet Available.*** The water board also plans to request additional resources to carry out its duties under the toxic pits program. According to the budget, however, adequate workload data were not available to permit the water board to include a specific proposal for additional staff as part of its 1986–87 budget. According to the DHS, its staffing requests were based on educated guesses of the workload required by the additional facilities. The water board is the agency currently reviewing data on the 1,300 unregulated facilities to determine workload requirements. More reliable staffing estimates would be produced if both the DHS and water board proposals are based on the most recent water board workload estimates.

- ***Potential Duplication Between the DHS and the Water Board.*** The state toxic pits program assigns responsibility for regulating the waste disposal ponds to the water board. Under RCRA, however, the DHS maintains responsibility for regulating hazardous waste disposal ponds. We are concerned that the differences between state and federal law may result in the two agencies duplicating certain activities. From our discussions with the two agencies, it appears that both are planning to regulate the hazardous waste ponds. In addition, even though the water board is charged with determining which facilities are disposing hazardous materials (which would make a facility subject to both state and federal control laws), the DHS plans to visit all 1,300 sites to ensure that each facility is not subject to regulation under RCRA. Because of the potential for duplication, we believe the water board and the DHS should jointly develop plans for ensuring that the 1,300 facilities are appropriately permitted and inspected under state and federal hazardous waste control statutes.
- ***The DHS Cannot Track Current Permitting and Inspection Staff.*** In its 1985–86 annual plan, the department indicates that 57.6 positions currently are funded to conduct RCRA permitting. This plan also indicates that 63.5 staff members are involved in RCRA inspection and enforcement activities. Previous budgets indicates, however, that departmental staffing totals 70.2 positions in permitting and 82 positions in enforcement. In total, the department's plan does not account for 31.1 positions that originally were added to the budget in support of permitting and enforcement activities. The department could not indicate where the remaining positions were assigned and why they were not performing the functions for which they were approved. The department should account for these 31 positions so that the Legislature can understand how additional inspection and enforcement staff will affect the state's program capabilities in these areas.
- ***Budget Request Does Not Match Assumption Regarding Implementation.*** The DHS proposal assumes a 9 percent salary savings rate for the new RCRA positions. The 9 percent salary savings rate assumes that the new positions will remain vacant for only one month during the fiscal year. The proposed implementation schedule for these positions, however, estimates that all new positions will be filled by October 1986. Thus, on average, the estimated salary savings rate does not match the department's implementation schedule. Similarly, the budget proposes that new lab staff would be funded for 11 months during 1986–87. Yet, the department's implementation schedule shows that permitting and inspection staff would not be generating samples for the laboratories until spring of 1987. As a result, additional laboratory staff would have no work to complete until that time. Thus, it appears to us that laboratory staff should be phased in, which would result in additional savings during the budget year.

For the reasons discussed above, we are unable to make specific recom-

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mendations to the Legislature concerning the toxics division's proposals. In order to full understand the department's staffing needs for permitting and inspection activity connected with the 1,300 unregulated facilities, the Legislature needs to understand which activities the DHS would be responsible for and which activities the water board would conduct. In addition, we would expect that staffing requests made by the two agencies would be generated using the same workload assumptions regarding the number of facilities needing permits, the number of facilities undergoing formal closure, etc. We believe that a jointly developed plan to regulate the 1,300 facilities under state and federal law would provide the Legislature with a comprehensive picture of the state's implementation plan as well as the staff levels needed to accomplish that plan.

Therefore, we withhold recommendation on the request for $3.7 million and 96.3 positions, pending the receipt of a revised proposal based on a plan, jointly developed by the department and the State Water Resources Control Board, to regulate the additional facilities. We further recommend that the department account for all the permitting and inspection positions authorized by prior budgets when it submits its plan.

D. CURRENT-YEAR FISCAL ISSUES

Current-year Fee Collections Fall Far Short of Program Needs

We recommend that, prior to budget hearings, the department report to the fiscal committees (1) the effective date of emergency regulations that increased Hazardous Waste Control Account (HWCA) fees and (2) a revised estimate of HWCA revenues during 1985–86.

The Hazardous Waste Control Account (HWCA), which is supported by fees paid by hazardous waste generators, funds the state's hazardous waste management programs. The budget estimates that current-year HWCA expenditures will reach $18.2 million. Of this amount, the toxics division anticipates spending $16.7 million for personnel and operating expenses connected with permitting and inspecting facilities that handle, transport, or dispose hazardous wastes. Because of the importance of these regulatory activities, it is essential that the HWCA has sufficient revenues to support the department's programs.

HWCA revenues for the first quarter of 1985–86, however, were far short of the amount needed to support the department's programs. According to the DHS, actual HWCA revenues were 31 percent below budget needs in the first quarter. In addition, current-year expenditures are $1.9 million higher than budgeted due to (1) $730,000 in employee compensation increases that were not included in the department's 1985–86 budget and (2) $1.2 million in statutory appropriations made out of the HWCA after the start of the fiscal year. As a result of revenue shortfalls and expenditure increases, *the department projects that planned expenditures will exceed revenues by $6,580,000 during 1985–86.*

To increase HWCA revenues to the level necessary for the operation of its programs, the DHS plans to increase fees by issuing emergency regulations. These regulations, which the department planned to be effective

February 1, 1986, will increase fees from an average of $11.25 per ton of hazardous waste to $34.74 per ton. This represents an increase of 209 percent. According to the department, the revised fee schedule takes into account recent reductions in the tonnage disposed.

We recommend that the department report to the fiscal committees prior to budget hearings on the effective date of the emergency regulations. We further recommend that the department provide an updated assessment of the HWCA revenues that it expects to collect during the current year.

Causes of Revenue Shortfall Not Clear

We recommend that, prior to budget hearings, the department analyze manifest data and advise the fiscal committees of (1) the reasons for the reduction in the amount of wastes disposed in the state during 1985–86 and (2) potential increases in the amount of wastes disposed during 1986–87 due to the reopening of waste disposal sites in southern California.

At the time this analysis was prepared, the department had no data to explain why HWCA revenues were declining. Our analysis suggests that a variety of factors may have contributed to revenue reductions, including the following:

- ***Changing Collection System.*** Hazardous waste generators currently pay the fees. Until 1985–86, however, hazardous waste disposal site operators paid the fee. Since generators are not accustomed to the new fee mechanism, some generators of waste may not be paying the disposal fee. In addition, due to the change in HWCA collections the federal government is no longer paying the fee as a generator of wastes. When fees were collected from site operators, the federal government paid the fees as a part of the cost of disposal. Since the federal government disposes significant quantities of hazardous wastes, the change in the collection system may result in significant fee-revenue losses to the HWCA.
- ***Loss of Disposal Capacity.*** During the past year, a number of southern California disposal sites stopped accepting hazardous wastes or restricted the type or amount of wastes that they accept. Consequently, generators may find that disposing some wastes at facilities outside of the state is their least expensive alternative. Since generators pay fees for only those wastes disposed at facilities located in the state, their fee payments may have decreased.
- ***Recycling or Treatment Incentives.*** HWCA fees are lower for treated wastes than for more hazardous untreated wastes. The fee system creates an incentive for generators to recycle or treat wastes, thus reducing the amount and severity of wastes generated. If substantially more wastes are being recycled and/or treated, fee revenues into the fund should also be declining.

The Legislature needs to understand why fee collections fell so sharply. Information collected by the department's manifest system tracks the amount and toxicity of wastes shipped and disposed in the state. A clear picture of the amount of wastes being shipped out of state and the amount of wastes being disposed, by type of waste, during the first quarter of 1985–86 could be derived by analyzing the manifest data. In addition, an analysis of manifest data can determine whether the amount of waste disposed during the first quarter of this year fell dramatically, or whether disposals stayed relatively constant. This information would indicate

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whether some generators were not paying HWCA fees.

So that the Legislature will be aware of the reasons for the revenue shortfall, we recommend the department analyze the manifest data and submit its findings to the budget committees prior to hearings. We further recommend the department estimate potential increases in the amount of wastes that will be disposed in the state during 1986–87 due to the reopening of waste disposal sites in southern California.

E. BUDGET-YEAR FISCAL ISSUES

Analyst's Lament

We recommend that prior to budget hearings, the Departments of Health Services and Finance submit a plan for insuring that the 1987–88 budget for the Toxic Substance Control Division provides the Legislature with an accurate picture of the division's spending plans.

In each of the last three years, we were critical of the budget for the toxics division because it contained significant errors or was incomplete. In our 1983–84 *Analysis,* we withheld recommendation on $11.5 million requested from the Hazardous Substance Account (HSA) because the expenditure plan for the use of the HSA monies was not available. In our 1984–85 *Analysis,* we withheld recommendation on $38.1 million from various funds because the division had not updated its expenditure plan. In our 1985–86 *Analysis,* we withheld recommendation on $21.8 million from various sources because no expenditure plan was available.

The proposed budget for the division in 1986–87 is no improvement over the previous budgets.

As the reader will see, we found it necessary to withhold recommendation on almost the entire budget request for the toxics division. Some of the problems that we encountered in this budget are as follows:

- The department cannot tell us how the majority of the funds budgeted for support will be spent during 1986–87. Specifically, the department indicated to us that it could not provide a breakdown of how $18.3 million from the HWCA and $14.0 million from the HSA would be used during 1986–87.
- Major additions to the budget are not documented. The department proposes to increase HSA expenditures by $2.4 million, for example, with no explanation of how the money would be spent.
- The budget proposes a different staffing level for the division than what departmental budget documents indicate. The budget requests an additional 94.5 *personnel-years* for 1986–87. Departmental records show the budget-year request for staff totaling an additional 93.5 *positions* above the current-year level. Since personnel-years do not include portions of positions that are deleted from the budget as a result of salary savings, the budget request is actually about 10 positions greater than what departmental records indicate staffing levels should be.

There is no excuse for the administration's inability to prepare a complete and accurate budget for the division by January 10, when the Governor's Budget is released.

Not only does the absence of a complete and accurate budget prevent meaningful review by the Legislature; it leaves the division without a game plan. The budget process is unalterably tied to the planning process. If the division cannot plan, it cannot develop a budget that accurately reflects its program priorities. If the budget cannot communicate a clear picture of the division's plans, can the division itself know what it wants to accomplish in 1986–87?

The administration has an obligation to take whatever corrective action is needed to establish a workable internal budget process. We doubt, however, that any procedural changes would improve the results for fiscal year 1986–87. Wholesale changes in the division's budget at this late date would only cause confusion. More importantly, restructuring the division's budget process needs to be done in a deliberate step-by-step manner. Accordingly, the administration should seek to restructure the division's internal process so that its *1987–88* budget accurately reflects the division's plans. We think the Department of Finance can provide the division with whatever technical assistance it needs. The Department of Finance has the authority and the expertise to help the toxics division develop the internal processes needed to put together budgets in a timely manner (as it did for the Office of Economic Opportunity several years ago).

For these reasons, we recommend that prior to budget hearings, the Departments of Health Services and Finance submit a plan for insuring that the 1987–88 budget for the Toxic Substance Control Division will be (1) the result of a well-managed planning process, (2) will be completed by December 1986, (3) will provide detailed documentation for the amounts requested, and (4) will be accurate and complete.

Toxics Division Budget Is Incomplete

We withhold recommendation on $32,291,000 requested from the Hazardous Substance Account (HSA) and Hazardous Waste Control Account (HWCA) pending the submission of a legislatively required study to determine the appropriate funding sources for the division's activities.

The budget proposes $32.3 million from the HWCA and the HSA for support of the department's hazardous waste control and cleanup programs. Of this amount, $18.3 million is proposed from the HWCA and $14.0 million is requested from the HSA. These funds represent 80 percent of the division's proposed support budget for 1986–87.

In our *Analysis of the 1985–86 Budget Bill,* we withheld recommendation on the toxics division's budget because our review found that proposed expenditures were not being financed by the appropriate fund sources. (The department proposed, for example, to support all laboratory services from bond act monies, even though a portion of the laboratory expenses resulted from specified regulatory activities. In general, regulatory tasks are funded from the HWCA.)

Subsequently, the Legislature adopted language in the *Supplemental Report to the 1985 Budget Act* requiring the toxics division to submit a report on whether departmental expenses are being supported by the appropriate fund. The supplemental report also contained detailed descriptions of activities that would be appropriately funded from the HWCA and the HSA.

At the time this analysis was prepared, the required report was not complete. The department advises that any funding adjustments that are warranted by the results of the department's study will be proposed in a Department of Finance amendment letter.

Without the report, we cannot review the division's budget request for 1986–87. Therefore, we withhold recommendation on $32,291,000 requested from the HSA and HWCA, pending the receipt of the report of the division's funding sources.

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Expenditure Plan for Bond Act Fund Overdue

We withhold recommendation on $5,830,000 requested from the Hazardous Substances Cleanup Fund, pending receipt of the department's revised expenditure plan for 1986–87. We recommend that the DHS revise its estimate of staff and operating expense needs in order to reflect proposed changes in the way the cleanup program will operate.

State law directs the department to prepare an expenditure plan for the use of bond act funds, and to submit the plan as part of the Governor's budget. At the time this analysis was prepared, the expenditure plan was not available. According to the department, the cleanup program's general operating plan as described in the 1985–86 expenditure plan was undergoing potentially major revisions.

The expenditure plan also serves as the basis for the department's request for state staff and expenses to operate the mitigation program. In the 1986–87 budget, the department requests $5.8 million in bond act funds to support operational expenses. This amount would provide the department with the same level of staff and operating funds it received in the 1985 Budget Act.

If the department makes substantial changes in the way the cleanup program will operate, the department's staffing and operating requirements will change accordingly.

Since the proposed budget does not reflect changes in the bond act expenditure plan that have occurred since submission of the 1985–86 plan, there is no point in the Legislature spending time on the budget. Accordingly, we withhold recommendation on $5,830,000 requested from the Hazardous Substances Cleanup Fund, pending receipt of the department's revised expenditure plan for 1986–87. We recommend that the DHS revise its estimate of staff and operating expense needs to reflect any substantial changes in the way the cleanup program will operate under the 1986–87 expenditure plan.

Funding Shortfall Developing

We recommend that prior to budget hearings, the department submit its preliminary estimate of administrative expenses for the hazardous waste cleanup program in 1987–88 and its proposed source of funding for those costs.

Chapter 1439, Statutes of 1985, set aside $12.2 million of $100 million in bond funds for DHS administrative support. Of these funds, the Legislature appropriated $6.4 in the 1985 Budget Act and reserved the remaining $5.8 million for 1986–87. The budget requests $5.8 million in bond act funds for departmental support in 1986–87.

Even though the department has not issued its expenditure plan for 1986–87, it acknowledges that cleanup activities will extend beyond 1986–87 into 1987–88. Extending the time in which cleanup actions occur implies that additional administrative support for these actions will be needed in 1987–88. If the remaining $5.8 million in bond act funds reserved for administration of the cleanup program is expended in 1986–87, the department would need to develop an alternate source of funding for program administration in 1987–88.

Three potential sources of program support are available: (1) bond act funds that currently are allocated for the *cleanup* of sites, (2) increased support from the HWCA, and (3) unallocated funds in the HSA.

None of these funding sources alone, however, could provide the needed administrative support without necessitating large fee increases or requiring major changes in how existing funds are used. Redirecting bond act funds clearly is not desirable because it would directly reduce the amount of site cleanup that can be accomplished. The HWCA could increase support for administrative activities by $5.8 million a year, but this would require a 29 percent increase in hazardous waste fees. While approximately $4 million from the HSA remains unallocated for 1986–87, these funds are intended to help repay bond act funding in the event that responsible-party recoveries are not sufficient to cover annual repayments. If these funds are used instead for administrative purposes, the state's General Fund would be at risk for the $4 million.

Dividing support between all three sources, however, would spread the burden.

Because a significant shortfall in administrative support for the mitigation program in 1987–88 is developing, we recommend that prior to budget hearings, the department submit its preliminary assessment of administrative expense needs for 1987–88, along with its proposed source of funding for those costs.

State Should Seek Up-Front Payment for Responsible-Party Expenses

We recommend that the Legislature adopt Budget Bill language requiring the department to seek reimbursement from responsible parties before initiating monitoring or arbitration activities. We further recommend that the Legislature reduce the amount budgeted from the HSA by $346,000 in order to reflect the policy of prior payment.

Convincing responsible parties to finance cleanups of hazardous waste sites is a major goal of the mitigation program. Responsible-party cleanups allow the state to redirect time and resources to other hazardous waste sites, thereby permitting the state to spend bond act funds on sites where identified responsible parties cannot or will not cooperate, or where no identifiable responsible party exists.

Even though responsible parties may finance cleanup efforts, the department still plans to spend its funds in support of responsible-party projects. Although the department's plan for 1986–87 is not clear, the 1985–86 DHS expenditure plan sets aside $610,000 in bond act funds to monitor responsible-party remediation projects. According to the department, periodic progress checks and a final assessment of whether the responsible party achieved the cleanup level specified in the cooperative agreement are an essential component of a successful effort to ensure adequate cleanups by responsible parties.

The department also spends state funds to support the arbitration process, which determines responsible-party liability for cleanup costs. The budget proposes $462,000 from the HSA for the support of state operations and independent arbiters who ultimately decide responsible-party liability. Since the Environmental Affairs Agency administers the arbitration program, the DHS provides program support through an interagency contract.

State law directs the department to recover from responsible parties the administrative cost, including interest, that can be attributed to these parties. Currently, the department plans to recover funds from responsible parties in different ways. Monitoring costs will be recovered *after* the cleanup project is completed. Fifty percent of the arbitration costs will be

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collected *prior* to the initiation of arbitration. The department has not yet decided whether the remaining 50 percent will be collected, or whether the HSA will support half of the arbitration costs.

Our analysis indicates that a consistent policy of seeking full funding from responsible parties *prior* to monitoring and arbitration activities would maximize the amount of funds available to the state for cleaning up hazardous waste sites. Recovered HSA and bond act funds are deposited in a special fund created to repay bonds as they become due, these funds cannot be reused. As a result, by using these funds for oversight and arbitration activities, the DHS prevents their later use for cleanup activities. If the state billed responsible parties for administrative costs as part of cleanup agreements, up to $610,000 could be available for use in remediating sites where no responsible parties will act. This amount could be substantially larger in the future if large numbers of responsible parties require monitoring of cleanup projects or arbitration.

While the state has little experience to date in recovering costs from responsible parties, the DHS indicated that collecting costs prior to initiating monitoring or arbitration activities is a realistic option. In its proposal to collect half of the arbitration costs prior to beginning arbitration, the department does not anticipate that *any* responsible parties will refuse to pay before arbitration begins. This is because, at the point responsible parties begin cleanups or enter into arbitration, it is clear that the firms will incur potentially major costs. By comparison, monitoring and arbitration costs are relatively small. If a firm is not willing to pay for a relatively small monitoring and arbitration fee, it is questionable whether it is committed to executing the cleanup agreements.

To maximize the impact of state funds on site cleanup, we recommend that the Legislature adopt Budget Bill language requiring the department to seek support from responsible parties *before* initiating monitoring or arbitration activities. We further recommend that the Legislature reduce by $346,000 the amount budgeted from the HSA in order to reflect the policy of prior payment. This would leave $116,000, or 25 percent, of the funds requested for arbitration expenses in 1986–87. These funds would provide support to the arbitration program in the event that (1) arbitration costs cannot be collected in time to meet program expenses or (2) program costs cannot fully be met with advance responsible-party payments. The following Budget Bill language is consistent with our recommendation:

"The Department of Health Services shall seek full reimbursement of projected expenses for (1) monitoring hazardous waste mitigation projects operated under a cooperative agreement with responsible parties, and (2) arbitration of cleanup liability, prior to the initiation of such activities."

Abandoned Site Program Scaled Back

We recommend that, prior to budget hearings, the department advise the Legislature of (1) the reasons why the Abandoned Site program should not operate like the former federally funded abandoned site survey program and (2) its revised implementation schedule for beginning the surveys. We further recommend that the Legislature fund this program from the Hazardous Substance Account. (Reduce Item 4260-001-014 by $313,000, increase Item 4260-001-455 by $313,000)

The budget proposes an augmentation of $313,000 from the HWCA and five positions to administer the Abandoned Site program required by Ch 1258/85 (SB 972). The program is designed to survey 28 rural counties for abandoned hazardous waste sites. A similar program, funded by the federal government, surveyed 30 counties in the state. The sites discovered by the federal survey account for 60 percent of the ranked sites currently on the state hazardous waste site cleanup list. In the current year, the DHS uses the federal abandoned sites funds to collect additional information on sites that are not currently on the state list.

No Documentation for New Operating Plans. The department proposes to administer the new state program differently from the way it operated the federal program. The federal program obtained information on abandoned sites from a variety of sources, including old telephone books, business registers, aerial photographs, and observations made by county staff. These sources generated a large number of potential hazardous waste sites. In response to Chapter 1258, however, the department proposes to check fewer sources for leads. Specifically, the DHS plans to ask county officials to search official records for possible sites. The department will then meet with local officials and "drive by" identified sites to determine the danger posed by each site. The budget assumes that an average of seven counties would be surveyed each year, for four years.

We asked the department why it proposed to check fewer sources to locate abandoned sites. The department indicated that checking other sources would not be as productive in rural areas as in urban areas, and stated that contact with local officials is the most efficient way to identify abandoned sites. The department could not, however, explain how it reached this conclusion.

We believe it is extremely important that the abandoned site survey be as thorough as possible in uncovering potential hazardous waste sites. In all likelihood, the state will survey each county for abandoned sites only once. Therefore, the proposed program presents the only opportunity to systematically search the 28 counties for hazardous waste sites.

If the department's proposed program does not identify most of the abandoned sites, one of two things will happen: the sites that the program misses will continue to represent a threat to public health and the environment, or a second survey will, at some point, become necessary duplicating much of the survey work proposed in the 1986–87 budget. Both alternatives should be avoided.

For this reason, we recommend the department tell the Legislature why it proposes to reduce the scope of survey activities in the 28 unsurveyed counties.

Implementation Schedule Needs Updating. The department's implementation plan shows the abandoned site survey program will begin operation in March 1986. Funding for the abandoned site survey program, however, is not available in the current year, according to the department. During discussions with the department, it indicated that the starting date for the surveys has not been determined. Since implementation delays in the current year may increase program workload in the budget year, we recommend that the department provide the Legislature with an updated implementation schedule for the abandoned site program.

Program Should be Funded From the HSA. The proposed abandoned site program would derive its support from the HWCA. Generally, the HWCA supports *regulatory* activities, such as permitting and inspecting hazardous waste disposal facilities. The HSA usually supports site cleanup workload.

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As part of the 1985–86 budget, the Legislature adopted supplemental language requiring the department to determine if toxics division activities were funded from the appropriate source. As part of the supplemental language, the Legislature defined what types of activities should be funded from the two funds. Included among the expenses that may be supported from the HSA are the discovery and evaluation of hazardous waste sites. The description of appropriate activities supportable from the HWCA does *not* include site discovery and evaluation. Since legislative intent with respect to this matter is clear, it would appear that the department is requesting support for the abandoned site survey from the wrong fund.

Therefore, we recommend that the Legislature reduce by $313,000 the amount budgeted from the HWCA and augment the HSA appropriation by a like amount, so that abandoned site search activities are funded from the appropriate source.

Industry Education Program Has No Details

We recommend that prior to budget hearings, the department advise the Legislature (1) why the industry education program should end after one year and (2) what the department's plans and priorities are concerning the operation of the program.

The budget proposes to spend $150,000 in statutorily appropriated HWCA funds during the current year for the support of an industry education program. Chapter 1245, Statutes of 1985 (AB 1858), requires the department to create a program to inform industry of regulations concerning handling, storage, and disposal of hazardous wastes. In response to this requirement, the department plans to spend the $150,000 appropriated by Chapter 1245 during 1985–86 on contracts with educational, professional, or trade associations. The budget does not propose to extend the program into the budget year.

Our review of the department's plans focused on two basic questions:

1. What are the department's plans and priorities in establishing the program?
2. Why does the department believe the program should run for only one year?

Unfortunately, the department could not respond to either question. This is because the details of the industry education program had not been determined. From our discussions, it appeared that the department had not decided (1) which industries to target, (2) whether information should be disseminated in pamphlets or through local seminars, and (3) what the information needs of small businesses are. Since there were no details to discuss, the department could not demonstrate how the program would adequately meet statutory requirements in one year.

Accordingly, we recommend that the department inform the Legislature of its plans and priorities concerning the operation of the industry education program and explain why the industry education program should terminate after one year.

Eliminate Investigator Support

We recommend that the Legislature delete $410,000 requested from the HWCA for the support of eight investigators because the department no longer proposes to use DHS investigators for enforcing state hazardous waste control laws.

The budget proposes $410,000 from the HWCA for the support of eight DHS investigators from the Audits and Investigations Division. These positions were funded by the Toxics Division during the current year to determine whether the investigators—who are peace officers, and therefore can serve warrants and conduct other quasi-legal activities—would provide valuable assistance in enforcing hazardous waste control laws. The department has determined, however, that the investigators do not possess the necessary technical expertise to substantially aid in enforcement actions. As a result, the department no longer proposes to support the eight positions with funds from the HWCA.

Since the department does not propose to fund the investigator positions as described in the 1986–87 budget, we recommend that the Legislature delete the $410,000 requested from the HWCA for this purpose.

5. CALIFORNIA MEDICAL ASSISTANCE PROGRAM (Medi-Cal)

The California Medical Assistance program (Medi-Cal) is a joint federal-state program initially authorized in 1966 under Title XIX of the federal Social Security Act. This program is intended to assure the provision of necessary health care services to public assistance recipients and to other individuals who cannot afford to pay for these services themselves.

The budget proposes Medi-Cal expenditures of $4,973 million ($2,380 million General Fund and $19 million SAFCO) in 1986–87, including $4,848 million ($2,337 million General Fund and $19 million SAFCO) for local assistance and $125 million ($42 million General Fund) for state administration. The total level of General Fund and SAFCO expenditures proposed for Medi-Cal in the budget year exceeds estimated expenditures for the current year by $85 million, or 3.7 percent.

Table 23 shows Medi-Cal expenditures for 1984–85 through 1986–87.

Table 23
Medi-Cal Program
Expenditures and Funding
1984–85 through 1986–87
(dollars in thousands)

	Fund	*Actual 1984–85* [a]	*Estimated 1985–86*	*Proposed 1986–87*	*Percent Change*
Health care services	State	$1,941,919	$2,213,968	$2,283,495 [b]	3.1%
	All	4,121,445	4,511,941	4,673,894	3.6
County administration	State	48,891	53,052	60,266	13.6
	All	127,477	141,975	134,994	−4.9
Claim processing	State	6,985	7,434	12,240	64.6
	All	27,732	32,066	39,146	22.1
Subtotals	State	$1,997,795	$2,274,454	$2,356,001 [b]	3.6%
	All	4,276,654	4,685,982	4,848,034	3.5
State administration	State	35,694	39,531	42,455	7.4
	All	117,097	113,948	125,123	9.8
Totals	State	$2,033,489	$2,313,985	$2,398,456 [b]	3.7%
	All	4,393,751	4,799,930	4,973,157	3.6

[a] The department's budget schedules contain conflicting figures for 1984–85 Medi-Cal expenditures, and the department does not know which are correct. These figures come from the Health Care Deposit Fund statement.

[b] State funds in 1986–87 include $18,902,000 from the Special Account for Capital Outlay.

DEPARTMENT OF HEALTH SERVICES—Continued

Chart 1 shows Medi-Cal program expenditures since 1978–79. The level of spending has increased at a steady pace since 1983–84, when there were sharp decreases as a result of the 1982 Medi-Cal reforms. Budgeted expenditures from all funds are 9.2 percent higher in the current year than in 1984–85, and 3.6 percent higher than in the current year.

Federal, State, and County Responsibilities Under The Medi-Cal Program

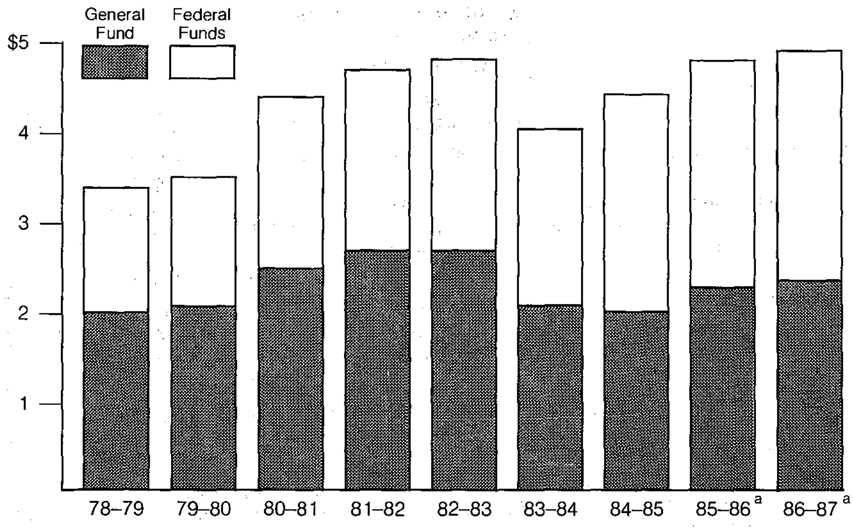
The administration and funding of Medi-Cal are shared by the federal and state governments. Counties perform certain tasks on behalf of the state.

The state Department of Health Services (DHS) develops regulations, establishes rates of payment to health care providers, reviews requests for authorization of certain types of treatment prior to delivery, audits provider costs, recovers payments due from private insurance companies and other sources, reviews county eligibility determinations, and manages various contracts with private vendors for processing of provider claims. Other state agencies, including the California Medical Assistance Commission and the Department of Social Services, perform Medi-Cal-related functions under agreements with DHS.

County welfare departments, along with the health department in Los Angeles County, determine the eligibility of applicants for Medi-Cal. In addition, many counties receive Medi-Cal reimbursements for services delivered to Medi-Cal eligible individuals treated in county hospitals and outpatient facilities.

Chart 1

Medi-Cal Expenditures by Funding Source 1978–79 through 1986–87 (in billions)



[a] Expenditures for 1985–86 and 1986–87 reflect unallocated reductions of 4.1 and 4.75 percent respectively.

The federal Department of Health and Human Services, through its Health Care Financing Administration, provides policy guidance and financial support for the Medi-Cal program.

Eligibility

Persons eligible for Medi-Cal fall into three major categories: categorically needy, medically needy, and medically indigent. The *categorically needy* (cash grant recipients) consist of families or individuals who receive cash assistance under the Aid to Families with Dependent Children (AFDC) or Supplemental Security Income/State Supplementary Payment (SSI/SSP) programs. The categorically needy automatically receive Medi-Cal cards and pay no part of their medical expenses.

The *medically needy* include families with dependent children and aged, blind, or disabled persons who are ineligible for cash assistance because their income exceeds cash grant standards. These individuals can become eligible for Medi-Cal if their medical expenses require them to "spend down" their incomes to 133 percent of the AFDC payment level specified for their household size.

The *medically indigent* are those who are not categorically linked (that is, they do not belong to families with dependent children and are not aged, blind, or disabled) but who meet income and share-of-cost criteria that apply to the medically needy category. Coverage under the medically indigent program is limited to (1) persons who are under the age of 21, (2) pregnant women, and (3) persons residing in long-term care facilities.

Eligibles and Users in 1986–87. The budget projects that an average of 2,910,400 persons will be eligible for Medi-Cal benefits each month during 1986–87. This is 1,200 more than the average number of beneficiaries eligible in the current year. The budget projects that 2,440,400 persons will be eligible to receive benefits on a fee-for-service basis and 470,000 persons will be enrolled in various prepaid plans. Of the population eligible for fee-for-service care, an average of 50 percent, or 1,219,000 persons, are expected to receive Medi-Cal benefits each month during 1986–87.

Table 24
Average Medi-Cal Program Eligibles and Fee-for-Service Benefit Recipients Per Month By Eligibility Category 1984–85 through 1986–87 (persons in thousands)

	Average Monthly Eligibles			*Fee-for-Service Benefit Recipients as a Percent of Eligibles* [a]		
	1984–85	*1985–86*	*1986–87*	*1984–85*	*1985–86*	*1986–87*
Categorically needy						
AFDC	1,716	1,749	1,740	37.3%	37.1%	37.9%
SSI/SSP	686	695	700	68.5	70.7	72.5
Medically needy						
Families	219	226	230	41.1	41.2	41.6
Aged, blind, or disabled	115	118	119	94.5	93.8	94.2
Medically indigent	113	113	114	44.3	44.8	45.1
Other [b]	9	9	8	100.0	100.0	100.0
Totals	2,857	2,909	2,910	48.5%	49.0%	50.1%

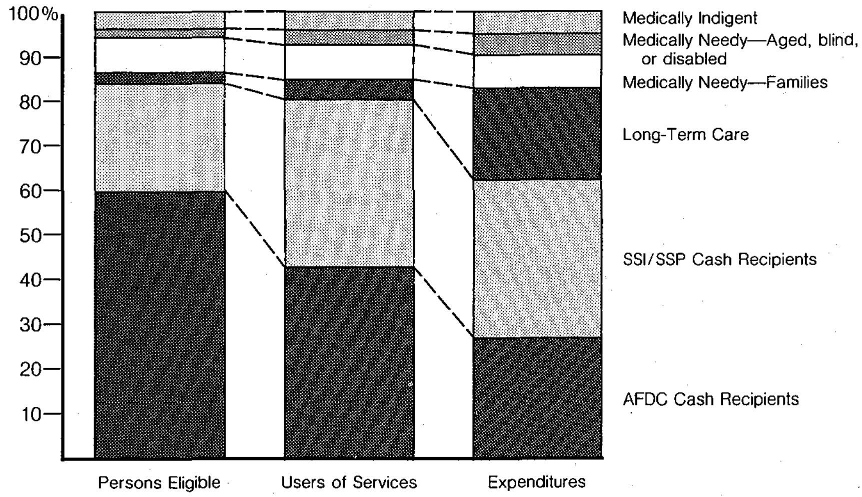
[a] Data concerning use of service are only available for fee-for-service eligibles.
[b] Includes renal dialysis patients and refugees.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 24 shows the number of persons eligible for Medi-Cal in each eligibility category, as well as the percent of fee-for-service eligibles who actually receive benefits.

Chart 2

Medi-Cal Eligibles, Users, and Costs Percent by Eligibility Category 1986–87



Expenditures by Eligibility Category. Chart 2 shows the percentages of eligibles, benefit recipients, and expenditures that each eligible group is expected to account for in 1986–87. Families receiving AFDC constitute 60 percent of Medi-Cal eligibles but are responsible for only 27 percent of total Medi-Cal expenditures. SSI/SSP recipients constitute 24 percent of the Medi-Cal caseload and are responsible for 36 percent of program expenditures. Medi-Cal eligible recipients residing in long-term care represent only 2.2 percent of all Medi-Cal eligibles but consume 20 percent of Medi-Cal expenditures. The share of medical expenditures attributable to the medically indigent and the medically needy is roughly equal to their share of the Medi-Cal eligible population.

Scope Of Benefits

Medi-Cal recipients are entitled to a wide range of health services, including physician, inpatient and outpatient hospital, laboratory, nursing home care, and various other health-related services. Many Medi-Cal services, however, require prior state authorization and may not be paid for unless the service is medically necessary. Not all services allowed in California are required by federal law.

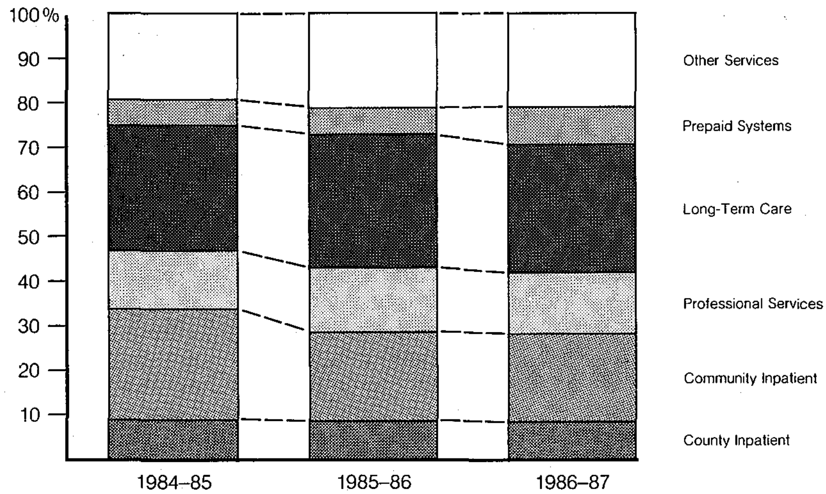
Federal law requires states participating in the Medicaid program to provide a core of basic services, including hospital inpatient and outpatient; skilled nursing; physician services; laboratory and X-ray; home health care; early and periodic screening, diagnosis, and treatment (EPSDT) for individuals under 21; family planning; and rural health clinics (as defined under Medicare). In addition, the federal government provides matching funds for 32 optional services. California provides 30 of these 32 optional benefits.

Expenditures by Service Category

Chart 3 shows Medi-Cal spending proposed for 1986–87, by service category. The chart reflects the following major changes in the distribution of expenditures between 1985–86 and 1986–87:

Chart 3

Medi-Cal Expenditures by Service
1984–85 through 1986–87



DEPARTMENT OF HEALTH SERVICES—Continued

- Spending on prepaid health systems is expected to increase from 5.2 percent in the current year to 8.3 percent in 1986–87. This increase is primarily due to the expected start-up of the Expanded Choice program in San Diego County during August 1986.
- Estimates for 1986–87 show an end to the sharp decline in the share of Medi-Cal expenditures going to community hospitals. Community hospital expenditures declined from 24 percent of total Medi-Cal expenditures in 1984–85 to 20 percent in 1985–86. The department estimates their share will decline only slightly, to 19 percent in 1986–87.

General Medi-Cal Budget Issues

Estimates Will Be Updated in May

We withhold recommendation on $4,848 million ($2,337 million General Fund and $19 million SAFCO) requested for local assistance under the Medi-Cal program, pending review of revised Medi-Cal expenditure estimates to be submitted in May.

The proposed expenditures for the Medi-Cal program are based on actual program costs through August 1985. The department will present revised estimates in May, which will be based on program costs through February 1986. Because the revised estimates will be based on more recent experience, the estimates will provide the Legislature with a more reliable basis for budgeting 1986–87 expenditures. We therefore withhold recommendation on the amounts requested in local assistance for the Medi-Cal program, pending review of the May estimates.

The Expenditure Estimates for Medi-Cal Are Phony

We recommend that the Department of Finance explain during budget hearings how it expects to achieve $233.2 million ($115.2 million General Fund) in unallocated Medi-Cal budget reductions during 1986–87.

The expenditures shown in the budget for Medi-Cal health services in the current year and the budget year are significantly less than the expenditures projected by the Department of Health Services. In effect, the Department of Finance has arbitrarily reduced the department's expenditure estimates by 4.1 percent, or $190.8 million ($94.9 million General Fund), in 1985–86 and by 4.75 percent, or $233.2 million ($115.2 million General Fund), in 1986–87. The only explanation given in the budget for these reductions—reductions that cause General Fund expenditures to be $200 million less than what the department projected—reads as follows:

> "There is considerable uncertainty associated with projecting Medi-Cal expenditures, which vary according to the number of persons eligible, the number and type of services these people require, and the cost of providing these services. For these reasons, the Medi-Cal Estimate of Expenditures provides a range which is required by Welfare and Institutions Code 14100.5, which states in part 'The Department of Finance shall identify a high-, mid-, and low-range of Medi-Cal service expenditures . . .'
>
> For fiscal year 1985–86, the Medi-Cal Estimate has been adjusted for potential variance resulting in a reduction of $190.8 million.
>
> For fiscal year 1986–87, the Department proposes the following changes . . .
>
> - A reduction of $233.2 million to adjust the Medi-Cal Estimate of expenditures for potential variance."

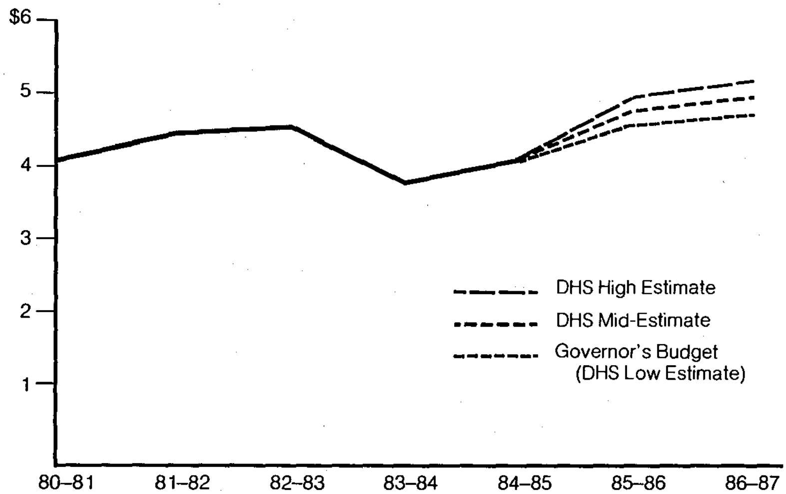
In the course of preparing its estimates of Medi-Cal spending, the Department of Health Services routinely prepares high-, mid-, and low-range estimates. The high- and low-range estimates for the budget year represent the mid-range estimate plus or minus 4 percent. The department asserts that this 4 percent range is "consistent with the accuracy observed in most large economic regression models." A narrower range—plus or minus 3.3 percent—is used for the current year because the current-year estimate includes two months of *actual* expenditures. This year, the department, for the first time, has expanded the range by 1 percent. This was done in recognition of the fact that actual expenditures in recent months have been subject to unexpected variability.

Chart 4 shows the high, mid, and low estimates prepared by the Department of Health Services and the amount requested by the Department of Finance.

Chart 4

Medi-Cal Health Services Expenditures, All Funds

1980–81 through 1986–87 (in billions)



In the past, the Medi-Cal appropriation requested in the Governor's Budget has been based on the mid-range expenditure estimate. While the mid-range expenditure estimate is subject to error, it is looked upon by the estimators as the most reliable of the available estimates.

What the Department of Finance has done is substituted the low-range estimate for the mid-range estimate on the grounds that the mid-range estimate could turn out to be too high. This, of course, also enables the department to claim a larger reserve for economic uncertainty and thereby reach the 3.7 percent goal on which the administration places so much emphasis.

DEPARTMENT OF HEALTH SERVICES—Continued

These "savings" in the Medi-Cal program are nothing more than wishful thinking. The same logic that produced these savings could be used to "justify" General Fund revenue projections that are $1.1 billion higher than what is reflected in the Governor's Budget. Achieving real savings in Medi-Cal expenditures of $424 million requires policy changes that either reduce reimbursement rates or service levels—not wishful thinking. For example, excluding the MIA transfer, all of the steps taken in 1982 to limit the costs of the Medi-Cal program yielded savings in 1983–84 of approximately $440 million ($220 million General Fund). Hence, to achieve the savings that the Department of Finance anticipates in 1985–86, the Governor would have to propose, and the Legislature would have to enact on an urgency basis, a set of measures every bit as far-reaching as those enacted in 1982.

The Governor has proposed no changes in policy that could be expected to produce savings in Medi-Cal health services expenditures. On the contrary, the only major initiative that the administration proposes for 1986–87—the expanded choice pilot in San Diego—will result in *increased* expenditures during the budget year.

The latest estimates of actual spending under the Medi-Cal program indicate that current-year expenditures are much closer to the mid-range estimate than they are to the low range. Actual data from the Department of Health Services show that Medi-Cal spending through mid-January was only $60 million ($30 million General Fund) below levels expected based on the mid-range estimate. This difference was primarily due to lower than expected expenditures in November 1985. Expenditures since November have equaled the estimated levels.

In addition to the unallocated reductions made by the Department of Finance, the budget fails to provide funds to cover other shortfalls likely to occur in 1986–87. We estimate that unbudgeted General Fund 1986–87 costs in the Medi-Cal program will total $148 million, including the unallocated Department of Finance reductions. Table 25 lists these costs. They include:

- ***Long-Term Care Rate Increases.*** No funds are provided for long-term care rate increases that are required under current federal law and the California state plan.
- ***Start-up for San Mateo County Organized Health System.*** The department plans to initiate a county-organized health system in San Mateo County during 1986–87. This will result in so-called pipeline costs due to payment of fee-for-service claims after the system is operational.
- ***Perinatal Services.*** Chapter 1404, Statutes of 1984 (AB 3021), establishes new services for pregnant women. Regulations defining these services are expected to be issued and services provided during 1986–87.
- ***ICF/DD-N Costs.*** The department plans to begin reimbursing costs for a new facility category, ICF/DD-Ns, during 1986–87.

Table 25
Medi-Cal Program
Unbudgeted Costs Likely During 1986–87
(dollars in thousands)

Unbudgeted Costs	*General Fund*	*All Funds*
Unallocated reduction	$115,200	$233,200
Long-term care rate increases	27,000	54,000
San Mateo County system	4,000	8,000
Perinatal services	—unknown—	
ICF/DD-N costs	1,800	3,500
Totals	$148,000	$298,700

Under current law, whenever the Director of the Department of Health Services "has reason to believe that the total cost of the Medi-Cal program will exceed available funds," he or she may modify methods and rates of payment for services. Rates may be reduced by up to 10 percent. If these modifications and reductions are not sufficient to eliminate the shortfall, the Director may order further reductions in coverage for a limited range of benefits. If the Medi-Cal deficiency reaches 10 percent, the Director is required by law to take these cost-controlling actions.

The Director, as yet, has chosen not to take the discretionary actions within his power to limit current-year Medi-Cal costs. The projected current-year shortfall is 4.5 percent of the appropriated amount, nearly halfway to mandatory program reductions. If the Legislature agrees to amounts proposed in the 1986–87 Governor's Budget for the Medi-Cal program and none of the current-year payments lap over into 1986–87, as of July 1, 1986, the Director of the Department of Health Services will find himself even closer than he is now to mandatory rate and service cuts.

Expanded Choice

Background. Assembly Bill 799 (Ch 328/82) authorizes the California Medical Assistance Commission (CMAC) to contract on a pilot basis for the provision of prepaid capitated health services to all Medi-Cal recipients residing in a clearly defined geographic area. Based on this mandate, the CMAC has developed the "Expanded Choice" program and plans to let contracts in three areas—two urban and one rural. The areas initially chosen for the pilot project were San Diego County, the San Fernando Valley in Los Angeles County, and Stanislaus County. The budget, however, anticipates that the program will be implemented only in San Diego County during 1986–87.

Under the Expanded Choice program, the Department of Health Services will contract with health maintenance organizations (HMOs) for the provision of hospital care, prescription drugs, and physicians' and other services. Recipients will receive these services from the HMOs under contract with the department. Fee-for-service care outside these HMOs will not be reimbursed except for specific types of services including dental care, mental health services, podiatry, chiropractic, speech therapy, audiology, and extended nursing home care.

Enrollment in an HMO will be *required* of all categorically eligible recipients and medically needy Medi-Cal recipients who pay no share of cost. Medi-Cal beneficiaries who are being treated for a defined medical problem by a physician not affiliated with an expanded choice health plan and/or who meet specific exemption criteria may be excluded from the program. Beneficiaries will be asked to choose a plan. If a beneficiary does not make a choice within a specified period, he or she will be assigned to a plan.

DEPARTMENT OF HEALTH SERVICES—Continued

The department will pay the prepaid health plans a monthly fee per eligible enrollee to provide covered medical services. The department will also incur additional administrative costs to (1) monitor contracted organizations to insure that they provide adequate service and (2) to provide beneficiaries the necessary information to make an informed choice among the health plans offered.

Budget Proposes August 1, 1986, Implementation. The CMAC expects to approve Expanded Choice health care contracts with as many as 11 prepaid plans in San Diego County during February 1986. By that time, the department expects to have designated a contractor to provide beneficiaries with information on the available health plans and to maintain enrollment records. Notices to beneficiaries regarding their health plan choices are scheduled to be mailed April 15, with follow-up notices sent on May 15 and June 15. Any beneficiary who fails to choose a health plan by July 1 will be assigned to a plan.

The budget reflects a variety of adjustments to Medi-Cal costs in both local assistance and state operations as a result of the Expanded Choice pilot program.

Local Assistance. The 1986–87 budget proposes $138,295,000 ($69,147,500 General Fund) to pay the monthly enrollment fees for the 160,000 Medi-Cal beneficiaries in San Diego County. The budget also reflects a $100.4 million reduction in the cost of fee-for-service claims under Medi-Cal. The net cost of $37 million ($18.9 million SAFCO) stems from so-called pipeline costs. These costs result from the fact that during the first months of the pilot, fee-for-service claims will continue to be paid for care received before the pilot begins.

State Operations. The budget proposes the following major changes in the state operations to implement the Expanded Choice program:

- An increase of $420,000 ($210,000 General Fund) and 12 positions to monitor contractor performance and perform various support functions.
- A decrease of $494,000 ($140,000 General Fund) and 23 positions associated with expected reductions in prior authorization workload, recovery, and investigations activities in San Diego County.
- An increase of $500,000 ($250,000 General Fund) to commission an independent evaluation of the Expanded Choice program.
- An increase of $117,200 ($58,600 General Fund) for computer mailings and equipment.
- An increase of $1,496,000 ($765,500 General Fund) to perform the beneficiary enrollment and information function.

Additional Costs and Savings Not Reflected. The department has not budgeted the following additional savings and costs that we expect will result from the Expanded Choice program:

- Cost to the department of $700,000 ($350,000 General Fund) for audit staff needed to conduct annual financial and medical audits of newly participating plans.
- Added costs to CMAC of $45,000 for ongoing negotiator support.
- Savings of $176,000 ($44,000 General Fund) due to reduced postage and checkwrite costs associated with paying Medi-Cal fee-for-service claims.
- Savings of $62,000 ($16,000 General Fund) in the cost of claiming reimbursement from Medicare.

- Savings of $335,000 ($168,000 General Fund) due to the elimination of county administration payments for dual-choice presentations in the pilot area.

Expanded Choice Will Result in Net Ongoing Costs. Table 26 shows the 1986–87 costs and savings attributable to the Expanded Choice program. The table includes both the costs and savings budgeted for 1986–87 and the additional costs and savings that we have identified. The table also shows the net costs and savings for 1987–88, using the same assumptions made for 1986–87. This illustrates the full 12-month effect of the pilot's operation.

Table 26
Expanded Choice Pilot Program
1986–87 and 1987–88 Costs
(dollars in thousands)

	1986–87	*1987–88*[a]
I. Expanded choice costs		
A. Costs for medical services and provider operations	$138,295	$150,868
B. State administrative costs	2,510	2,510
Audits	(700)	(700)
Contract monitoring	(420)	(420)
Data processing	(117)	(117)
Enrollment functions	(1,156)	(1,156)
CMAC	(80)	(80)
County administration	(37)	(37)
C. Total costs	$140,805	$153,378
II. Fee-for-service savings		
A. Medical services	$138,120	$150,676
B. State administrative costs	1,067	1,500
Checkwrite and postage	(176)	(191)
Prior authorization	(452)	(812)
Recovery and investigations	(42)	(64)
Medicare claiming	(62)	(67)
Dual choice	(335)	(366)
C. Total savings	$139,187	$152,176
III. Net operating costs	$1,618	$1,202
IV. Additional one-time costs	$38,292	—
A. Pipeline costs	(37,452)	—
B. Enrollment functions (phase-in)	(340)	—
C. Evaluation	(500)	—
V. Total costs	$39,910	$1,202

[a] Costs in 1987–88 were calculated using the same assumptions as in 1986–87. They do not reflect potential changes in rates paid under expanded choice, changes in state support costs, or other changes in the Medi-Cal program that might occur.

We estimate net additional costs due to the Expanded Choice program of $1.6 million ($0.8 million General Fund) in 1986–87. We also estimate that Expanded Choice costs will exceed fee-for-service savings by $1.2 million ($600,000 General Fund) in 1987–88 and annually thereafter.

As shown in Table 26, Expanded Choice medical costs exceed fee-for-service medical costs. This is due primarily to the CMAC's method of determining fees. The CMAC will set fees equal to 95 percent of (1) the costs incurred in providing medical services under the fee-for-service system *plus* (2) the average cost per beneficiary for administration of the Medi-Cal program. Since average state administrative costs are about 5 percent of total Medi-Cal costs, they offset any savings in medical costs.

DEPARTMENT OF HEALTH SERVICES—Continued

Under the Expanded Choice program, administrative costs will increase, primarily due to the $1.2 million contract for the beneficiary enrollment/presentations function.

Withhold Recommendation On Expanded Choice Changes

We withhold recommendation on (1) the proposed position augmentations and reductions related to the Expanded Choice program and (2) the contract funds proposed for both the enrollment functions and the evaluation pending receipt of the May revision and completion of the contract award process.

Position Changes. The proposed budget contains various position augmentations and reductions related to the expanded choice pilot project. Implementation of the pilot project has already been delayed twice, and further changes in the project may be made in the coming months. Consequently, it would be premature to recommend approval or disapproval of the proposed position changes at this time. Consequently, we withhold recommendation on the proposed changes, pending receipt of the May revision. At that time, the department will be able to make a more reliable estimate of the program's effects and expected implementation date.

Contract Costs. The department indicates that the evaluation of bids and the contract award process are scheduled for completion in late February. At that time, the department will have a good idea what the proposed contract will cost. The development of the evaluation contract is just beginning, and the department has not yet completed the details of the evaluation.

We cannot determine whether the department's plans for the evaluation provide the data needed for a complete evaluation of the Expanded Choice program. Consequently, we withhold recommendation on the amount proposed for expanded choice contracts covering the evaluation and enrollment functions, pending receipt of more complete information concerning the proposed contracts.

A. MEDI-CAL HEALTH SERVICES

1. General Fund Deficiency of $125.9 million in 1985–86

The *budget* estimates that 1985–86 spending for Medi-Cal health services will exceed available funds by $31 million ($14.9 million General Fund). The deficiency, however, probably is several times this amount. The Department of Health Services estimated the current-year deficiency to be $205.7 million ($125.9 million General Fund). *The Department of Finance arbitrarily reduced the estimate by $190.8 million ($94.9 million General Fund).*

Table 27 shows the amounts appropriated for Medi-Cal health services for 1985–86 and the factors that have resulted in the projected deficiency. The major increases and decreases in expenditures are as follows:

Table 27
Medi-Cal Health Care Services
Proposed Budget Changes
1985–86 and 1986–87
(dollars in millions)

	General Fund	*All Funds*
1985–86		
Funds available, 1985 Budget Act		
1. Health benefits item	$2,102.4	$4,310.3
2. Refugee reimbursements	—	22.1
3. Provision 1	—	14.2
4. Rate item	68.9	138.7
5. Abortion item	11.7	11.7
Subtotals, 1985–86 expenditures (Budget Act)	$2,182.9	$4,497.0
Unanticipated changes		
1. Increase in users of services	$73.4	$146.8
2. Long-term care rate increases	31.9	63.7
3. *Committee v. Kizer*	15.9	14.1
4. Federal audit recovery	13.2	13.2
5. Reduced federal audit receipts	8.5	—
6. *Lopez v. Heckler*	5.3	10.5
7. Disability determination moratorium	5.0	10.1
8. Delay in expanded choice start-up	−22.8	−45.3
9. Other changes	−4.4	−7.4
1985–86 expenditures (Department of Health Services estimate)	$2,308.9	$4,702.7
Arbitrary 4.1 percent reduction	−94.9	−190.8
1985–86 expenditures (Department of Finance estimate)	$2,214.0	$4,511.9
Deficiency:		
Budgeted	−$31.0	−$14.9
Actual	−125.9	−205.7
1986–87		
Baseline expenditures (Department of Health estimate)	$2,308.9	$4,702.7
Proposed changes		
1. Increase in users of services	$26.4	$52.8
2. One-time costs/savings in 1985–86	−7.5	−13.2
3. Full-year cost of 1985–86 provider rate increases	31.9	63.9
4. Full-year cost of 1985–86 beneficiary cost-of-living adjustments	7.3	14.6
5. 1986–87 beneficiary cost-of-living adjustments	12.1	24.2
6. Statutory provider rate increases	8.0	16.0
7. Limitation on abortion funding	−14.4	−12.7
8. Expanded choice start-up costs	18.9	37.5
9. Home- and community-based care waivers	—	4.3
10. Transfer of dental administrative cost	−5.1	−10.1
11. Other changes	12.3	27.2
1986–87 expenditures (Department of Health Services estimate)	$2,398.7	$4,907.1
Arbitrary 4.75 percent reduction	−115.2	−233.2
1986–87 expenditures (Department of Finance estimate)	$2,283.5	$4,673.9
Amount requested from SAFCO	−18.9	—
1986–87 net expenditures (Department of Finance estimate)	$2,264.6	$4,673.9
Change from 1985–86:		
Before arbitrary reductions		
Amount	$89.8	$204.4
Percent	3.9%	4.3%
After arbitrary reductions		
Amount	$69.5	$162.0
Percent	3.1%	3.6%

- ***Increases in Users of Services ($73.4 Million).*** After the May 1985 expenditure estimates were released and before the 1985 Budget Act was signed, the Department of Health Services revised its expendi-

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ture estimates for *1984–85*. It did so because the number of persons using Medi-Cal services in March and April 1985 were considerably above the projected levels. When the higher utilization rates were factored into the 1985–86 estimate, estimated costs went up by $146.8 million ($73.4 million General Fund).

- ***Long-Term Care Rate Increases ($31.9 Million).*** Rate increases for long-term care facilities exceeded the 4 percent increase provided in the 1985 Budget Act. Effective August 1985, rates increased by 7 percent for skilled nursing facilities, by 4.7 percent for intermediate care facilities, and by 17.5 percent for state hospitals. Rates paid to intermediate care facilities for the developmentally disabled—habilitative increased by an additional 0.7 percent, effective October 1985. These rate increases resulted in cost increases of $63.7 million ($31.9 million General Fund).
- ***Committee* v. *Kizer ($15.9 Million).*** In July 1985, the state Court of Appeals ordered the department to continue paying for the costs of all abortions for Medi-Cal beneficiaries and voided the restrictions specified in the 1985 Budget Act. This order results in unbudgeted costs of $15.9 million to the General Fund and an estimated $1.8 million in savings in federal funds.
- ***Federal Audit Recoveries ($13.2 Million).*** The state has settled several outstanding disputes relating to funds that federal auditors have identified as inappropriately charged to the federal government. The largest of these relates to inappropriate claiming of federal funds for payment of abortion services during the period from 1972 to 1979.
- ***Reduced Federal Audit Receipts Under Provision 1 ($8.5 Million).*** The 1985 Budget Act provided for the receipt of $14.2 million in federal funds following a final resolution of certain outstanding audit disputes. The department now estimates that the state will receive only $5.7 million, leaving an $8.5 million shortfall that must be funded by the General Fund.
- ***Lopez* v. *Heckler and Continued Disability Determination Moratorium ($10.3 Million).*** In the case of *Lopez* v. *Heckler*, the federal court required the reinstatement of persons discontinued from SSI/SSP because of inappropriate determinations regarding their disabilities. The added cost to Medi-Cal as a result of reinstating these beneficiaries will be $10.5 million ($5.3 million General Fund) higher than what had been estimated. In addition, the moratorium on disability determinations has been extended through January 1986, resulting in Medi-Cal cost increases of $10.1 million ($5.0 million General Fund).
- ***Delay in Expanded Choice Start-Up (−$22.8 Million).*** The 1985 Budget Act was based on the assumption that the Expanded Choice pilot program would begin at two sites in the spring of 1986. Start-up has been delayed until August 1986. This delay will reduce current-year costs by $45.3 million ($22.8 million General Fund). These are so-called "pipeline" implementation costs that result whenever beneficiary enrollment in prepaid health organizations increases.

2. General Fund Request for 1986–87: Up 2.3 Percent
General Fund Costs: Up 3.9 Percent

The budget requests $4,673.9 million ($2,264.6 million General Fund and $18.9 million SAFCO) for Medi-Cal health care services in 1986–87. The

General Fund request is $50.2 million, or 2.3 percent, above estimated expenditures for the current year as adjusted by the Department of Finance. The projected increase is below the norm for this program for two reasons. First, as noted above, the Department of Finance made an arbitrary reduction in the Department of Health Services expenditure estimate for 1986–87. Second, part of the costs that normally would be financed from the General Fund have been shifted to the Special Account for Capital Outlay for the budget year.

Disregarding the arbitrary reduction, Medi-Cal health services are expected to cost $4,907.1 million in 1986–87 (Department of Health Services estimate), of which $2,398.7 million will be supported with state funds. This represents a 4.3 percent increase in *total* spending and a 3.9 percent increase in *state* funding requirements. Table 27 summarizes the major factors that have led to the increase in spending. They include the following:

- ***Increases in Users of Services ($26.4 Million).*** The number of those utilizing Medi-Cal services is expected to increase by 1.6 percent in 1986–87. This increase will occur despite a projected 0.8 percent decrease in the numbers of persons *eligible* for fee-for-service Medi-Cal services. The resulting increase cost occurs primarily in inpatient hospital services, intermediate care facilities, medical transportation, home health services, and other services. Because of the high cost of inpatient hospital services, the increases in this service category account for most of these increases. The families and cash assistance disabled recipients show the largest increases in the number of users projected for 1986–87.
- ***Full-Year Cost of 1985–86 Provider Rate Increases ($31.9 Million).*** The 1985 Budget Act provided increases in rates for various Medi-Cal services ranging from 4.0 to 26.3 percent. The full-year cost of these increases will not be felt during 1985–86 because the rate increases took effect on August 1, and Medi-Cal payments for services are made several months after the services are provided. The 1985–86 rate increases will cost an estimated $63.9 million ($31.9 million) more in the budget year than they cost in the current year.
- ***Full-Year Cost of 1985–86 Beneficiary Cost-of-Living Adjustments ($7.3 Million).*** The full-year effect of the cost-of-living adjustment provided under the AFDC and SSI/SSP programs during 1985–86 will increase budget-year costs by $14.6 million ($7.3 million General Fund).
- ***Statutory Provider Rate Increases ($8.0 Million).*** The budget request includes funds for expected increases in rates of payment for inpatient services in noncontract hospitals and for drug ingredients. State law requires that reimbursement for these services be provided based on actual cost. The rate increases will result in costs of $16 million ($8 million General fund).
- ***Limitation on Abortion Funding (—$14.4 Million).*** The budget proposes control language identical to that approved in the 1985 Budget Act limiting the use of Medi-Cal funds for abortions. The budget assumes that the restrictive language will withstand legal challenge and that the number of Medi-Cal-reimbursable abortions will decline. The result is a net savings of $12.7 million ($14.4 million General Fund) in 1986–87.
- ***Expanded Choice Start-Up Costs ($18.9 Million from SAFCO).*** The department expects to implement the Expanded Choice program in San Diego County, effective August 1, 1986. Under this pro-

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gram, most persons eligible for Medi-Cal will enroll in prepaid health organizations. They will no longer use fee-for-service providers for their medical care. The result is a one-time cost of $37.5 million ($18.9 million SAFCO) to pay for fee-for-service claims processed after the program begins.

- *Transfer of Dental Administrative Costs (−$5.1 Million).* The budget proposes to transfer the cost of processing Medi-Cal dental claims from the health services item to the Medi-Cal fiscal intermediary item. This permits a $10.1 million ($5.1 million General Fund) reduction in the request for health services and a commensurate increase in the fiscal intermediary item.

Proposed Changes in Medi-Cal Benefits

We recommend approval of the following proposed changes in Medi-Cal benefits:

- *Absorptive Lenses.* The budget proposes to extend coverage to include selective absorptive lenses for beneficiaries with certain retinal diseases. These lenses reduce or block the transmission of light that is harmful to some persons. Use of these lenses can prevent permanent damage to the retina.
- *Prior Authorization Limits.* The budget proposes to increase from $50 to $100 the dollar threshold for purchases of prosthetic, orthotic, and durable medical equipment that require a prior treatment authorization request (TARs). It also proposes to cut staff in Medi-Cal field offices that now process TARs for these low-cost services. The increased thresholds result in an estimated increase in health services costs of $56,000 ($28,000 General Fund) and offsetting savings in Medi-Cal administrative costs of $83,000 ($21,000 General Fund).

Full Funding of Statutory Beneficiary Cost-of-Living Adjustments

Any increase in cash grant payments under the Aid to Families with Dependent Children (AFDC) and Supplemental Security Income/State Supplementary Payment (SSI/SSP) programs increases Medi-Cal costs in two ways. First, increased income standards result in increased numbers of Medi-Cal eligibles; and second, increased maintenance need levels result in reduced share-of-cost payments by medically needy and medically indigent beneficiaries.

The budget contains $24.2 million ($12.1 million General Fund) to fund increased Medi-Cal costs that are anticipated as a result of 4.9 percent (estimated) increase in AFDC and SSI/SSP grant levels that current law requires.

No Discretionary COLAs Provided in 1986–87

The budget includes $40.2 million ($20.0 million General Fund) for statutory rate increases. This amount includes funds for (1) 7.3 percent increase in costs for noncontract-hospital service, and (2) a 7.3 percent increase for the hospital component of rates for prepaid health plans, county organized health systems, and the Redwood Health Foundation, and (3) a 5.6 percent increase in the cost of drug ingredients. (All of these increases are subject to change, based on the criteria set forth in state law.)

The budget provides no funds for increases in the rates paid to any other providers. Table 28 shows the rate increase granted to various types of providers in recent years. It also shows the costs of providing a 1 percent increase in provider rates in 1986–87.

Table 28

Medi-Cal Provider Reimbursement Rate Changes
1984–85 through 1986–87
(dollars in thousands)

	Rate Changes			*1986–87 Cost of 1 Percent Increase*	
Statutory increases	*Actual 1984–85*	*Actual 1985–86*	*Prop 1986–87*	*General Fund*	*All Funds*
Noncontract hospitals	10.4%	9.5%	7.3%	$544 [a]	$1,088 [a]
Drug ingredients	7.5	6.2	5.6	712	1,424
Other required increases					
Skilled nursing facilities	15.3 [b]	7.0	—	4,672	9,269
Intermediate care facilities	9.8 [b]	5.4 [c]	—	502	1,002
State hospitals	13.4	17.5	—	1,576	3,153
Discretionary increases					
Physician	7.7	6.0	—	1,683	3,381
Dental	9.4	5.3	—	402	798
Drug dispensing	8.0	4.0	—	515	1,047
Hospital outpatient	7.7	7.9	—	583	1,161
Prepaid health plans	1.9	5.4	—	728	1,430
Redwood Health Foundation	9.7	12.0	—	145	285
Laboratory and pathology	7.4	26.3	—	345	691
Psychology, acupuncture, portable X-ray, chiropractic	7.7	5.3	—	60	120
Prosthetics and orthotics	8.0	4.0	—	22	45
Other providers	3.0	4.0	—	1,720	3,802
Totals				$14,209	$28,696

[a] This includes $362,000 ($181,000 General Fund) for hospital services provided by Redwood Health Foundation, county organized health systems, and prepaid health plans operating in areas not closed to hospital contracting.

[b] This includes the 1984–85 increases for SNFs, ICFs, and state hospitals of 6.3, 3.6, and 10.2 percent, respectively, granted August 1, 1984; increases granted in Ch 1621/84 of 1.0, 0.9, and 0.4 percent effective February 1, 1985; and increases granted in Ch 10/85 and Ch 11/85 of 7.4, 5.0, and 2.5 percent effective March 15, 1985.

[c] This is the combined impact of a 4.7 percent increase granted August 1, 1985 and a 0.7 percent increase provided by Ch 1336/85 effective October 1, 1985.

Funding for Disproportionate Hospital Providers Increasing

The California Medical Assistance Commission (CMAC) is responsible for negotiating contracts with hospitals, county health systems, and health care plans that provide services to Medi-Cal beneficiaries. In this capacity, the CMAC renegotiates rates of payment with hospitals, "closes" areas to noncontract hospital providers after negotiations in an area have been completed, and terminates existing contracts and negotiates new contracts in closed areas.

Table 29 shows that the CMAC has negotiated contracts which will increase hospital payment rates by $31.8 million in 1986–87 without substantially increasing overall Medi-Cal costs. It has done so by negotiating contracts in two new areas, which will yield an estimated $8.8 million savings, and by terminating some costly contracts and negotiating new contracts in closed areas which will produce a $21.9 million savings. Most of the new contracts were negotiated with children's hospitals, which were exempt from contracting until October 1984.

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Table 29
Effect of CMAC Hospital Contracts Negotiated Between September 1984 and September 1985 [a]
All Funds

Added costs	*1985–86*	*1986–87*
Rate increases [b]	$18,642	$31,803
Budgeted in Medi-Cal base		
Disproportionate providers	(9,060)	(19,940)
Others	(6,942)	(6,773)
Additional increases		
Disproportionate providers	(2,480)	(4,780)
Others	(160)	(310)
Savings		
Closure of two new areas	−8,508	−8,827
New and terminated contracts	−11,156	−21,942
Totals	−$1,022	$1,034

[a] *Source*: Department of Health Services and California Medical Assistance Commission.
[b] Includes $1.9 million in 1985–86 and $2.0 million in 1986–87 resulting from contract amendments that permit separate billing of physician's services that previously were included in the hospital's contract rate.

The 1985 Budget Act included $5 million ($2.5 million General Fund) to increase reimbursement rates for hospitals that have a disproportionately large share of low-income patients. The CMAC has defined these providers as hospitals that are county or university hospitals, or hospitals with more than 20 percent of their patients funded by Medi-Cal.

Under its guidelines the CMAC will not terminate a contract or refuse to amend a contract with a "disproportionate" hospital solely because it wishes to avoid overall cost increases. In addition, the commission in negotiating reimbursement rates, will take into account information provided by "disproportionate" hospitals on their fiscal situation and the impact that proposed contract changes would have on them. The guidelines also call for CMAC to give special consideration to rate amendment proposals requested by disproportionate providers.

Table 29 shows the share of rate increases that have gone to "disproportionate" hospitals and other hospitals. Excluding the $5 million augmentation for disproportionate providers, the 1985 Budget Act provided $9,060,000 for disproportionate providers and $6,942,000 for other providers. In addition, negotiations have resulted in revenue increases for disproportionate providers totaling $2,480,000. These increases are funded using money added to the 1985 Budget Act specifically for disproportionate providers.

Medi-Cal Rates for Long-Term Care

The 1985 Budget Act directs the Legislative Analyst to review the method that the department uses to set rates for long-term care facilities, including skilled nursing facilities, intermediate care facilities, and facilities for the developmentally disabled. The purpose of the review was to determine whether increases in rates were adequate to cover the actual increases in overall costs and in the various cost categories.

The Rate-Setting Method. Each year the department calculates new rates for long-term care facilities and publishes the results in its annual *Reimbursement Study*. The department begins by determining the actual costs experienced by facilities in the prior fiscal years. For example, rates for 1985–86 were based on costs experienced by facilities whose fiscal years ended between July 1983 and June 1984. Costs for each facility are adjusted by a factor that reflects unallowable costs which the department has identified in audits of a sample of long-term care facilities. Unallowable costs include (1) costs unrelated to patient care (for example, personal cars, entertainment, or travel), (2) unreasonable compensation (salary or consulting fees for administrators or owners that exceed limits established under Medicare costs principles), and (3) other technical adjustments (such as adjustments in depreciation schedules). Table 30 shows the percent of costs disallowed for various types of facilities.

Table 30

Percent of Costs Disallowed Due to Audit Adjustments

Facility Category	*1979*	*1980*	*1981*	*1982*	*1983*
Skilled nursing facility					
1–59 beds	2.7%	3.7%	3.3%	5.4%	6.3%
Over 59 beds	3.2%	3.5%	4.1%	3.2%	3.4%
Intermediate care facility					
1–59 beds	2.7%	5.8%	3.3%	3.3%	4.2%
Over 59 beds	3.2%	6.3%	4.1%	8.3%	13.0%

Source: Department of Health Services Reimbursement Studies.

Allowable costs are then spread into four categories: (1) salaries, wages, and benefits, (2) property taxes, (3) fixed costs (including depreciation, leases, rents, interest, leasehold improvements, and other amortization), and (4) other costs. Costs in each of the four categories are projected for the coming state fiscal year by applying a variety of adjustment factors. These factors represent estimates of cost increases expected between the time the costs were reported and the midpoint of the coming fiscal year.

The following adjustment factors were used in the 1985 rate study that set rates for 1985–86:

1. ***Salaries, Wages, and Benefits.*** The department updated these costs through September 1984 based on data received from the Employment Development Department about wages paid in the nursing home industry. For the period from October 1984 to June 1985, the department then applied an increase of 10 percent (on an annual basis) to reflect increases granted to certain classes of state employees. An additional increase of 7.5 percent (on an annual basis) was granted for the period from July to December 1985.
2. ***Property Taxes.*** The department provided funds for a 2 percent annual increase in property taxes.
3. ***Fixed Costs.*** The department did not provide funds for cost increases in this category. The department has argued that these costs remain relatively constant and that there is no logical basis on which to update costs in this category.
4. ***Other Costs.*** The department updated these costs using the change in the California Consumer Price Index for All-Urban Consumers. The department relies on the Department of Finance for estimates of this index.

Costs for each facility are projected for the budget year. Additional adjustments may be added if the base does not reflect recent program changes. For example, the 1985–86 rates were adjusted to include (1) the cost of laundry and haircut services required by Ch 1641/84 (AB 2845), (2)

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the wage pass-through provisions and staffing standards established by Chs 10 and 11/85 (AB 160 and SB 53), and (3) the added administrative costs stemming from the *Johnson v. Rank* court decision, which requires that patient expenditures for certain drugs and medical supplies be counted toward an individual's share of cost under the Medi-Cal program.

After these adjustments are made, facilities are categorized according to size, type, and location; and separate rates for each category are set at the median of the projected cost for the facilities in each category.

Overall rate increases provided by the department have been more than adequate to meet actual cost increases. The primary basis for judging the accuracy of the rate-setting method is whether or not actual cost increases exceed the rate increases that the department has set. Because the rates are established at the median—that is, 50th percentile—the department's methodology would be successful if the rate paid equaled the median cost of the facilities in a given year.

Table 31 shows that the rates paid to skilled nursing facilities in recent years have exceeded the median costs that the facilities actually incurred. Only three times has the median facility of any category experienced costs that exceeded the rates set by the state. When shortfalls occurred, median costs for facilities were 0.1 to 1.6 percent higher than rates, which amounted to a shortfall of five to sixty-five cents per patient-day.

Table 31

Percentage by Which Reimbursement Rates Exceed Median Adjusted Costs Incurred by Skilled Nursing Facilities

	Los Angeles		*Bay Area Counties*		*All Others Counties*	
Fiscal Year End Dates	*Less than 60 Beds*	*60 Beds or More*	*Less Than 60 Beds*	*60 Beds or More*	*Less Than 60 Beds*	*60 Beds or More*
1980	2.8%	2.9%	3.1%	2.7%	2.8%	6.2%
1980–81	4.5%	6.1%	8.2%	4.8%	7.7%	7.1%
1981–82	1.9%	3.3%	0.5%	2.1%	2.9%	4.1%
1982–83	3.4%	1.9%	−0.1%	0.9%	2.1%	0.7%
1983–84	3.2%	1.1%	1.2%	−1.6%	2.6%	−1.4%

Adequacy of Increases by Cost Category. The DHS rate-setting method consistently overestimates the increases in salaries and wages given by long-term care facilities. On the other hand, increases provided for fixed costs and other costs are consistently less than actual costs. Although facilities have been compensated for overall cost increases by the rates, cost increases in individual categories have not, in all cases, been fully reimbursed. Table 32 compares the rate increases in each cost category to the actual cost increase reported for a sample of long-term care facilities taken by the California Health Facilities Commission (CHFC).

Table 32 shows that salary and wage increases provided by the department exceeded actual salary and wage increases by 1.3 to 2.6 percent. Fixed costs increased between 2 percent and 3 percent annually, even though the department had assumed that these costs would remain unchanged. "Other costs" increased by 8.5 and 8.8 percent for fiscal years ending in 1982–83 and in 1983–84. The department's rate method allowed only a 3 percent increase in 1982–83 and a 5 percent increase in 1983–84 for "other costs."

Table 32

Increases in Actual Costs Compared With Rate Increases

	Cost Increase	*Rate Increase*	*Difference*
		1981–82	
Salaries and wages	6.2%	8.6%	2.4%
Fixed expenses	2.1%	0.0%	–2.1%
Property taxes	4.6%	2.0%	–2.6%
Other costs	10.2%	7.3%	–2.9%
		1982–83	
Salaries and wages	3.4%	6.0%	2.6%
Fixed expenses	2.6%	0.0%	–2.6%
Property taxes	1.5%	2.0%	0.5%
Other costs	8.5%	3.0%	–5.5%
		1983–84	
Salaries and wages	3.8%	5.1%	1.3%
Fixed expenses	2.7%	0.0%	–2.7%
Property taxes	0.5%	2.0%	1.5%
Other costs	8.8%	4.9%	–3.9%

Source: CHFC Long-Term Care COLA Study and DHS Reimbursement Studies.

Use of Salary Increase Funds. The CHFC findings indicate that salary and wage increases for nursing home employees have fallen short of the increases that the department assumed when it projected costs. In part, this may be because facilities have used some salary increase funds to cover cost increases in other categories that were not fully reimbursed by rate increases. Nevertheless, there is little evidence to suggest that increasing rates for "other costs" would result in higher spending for salaries and wages. We note that:

- Between 1979 and 1983, long-term care facilities have consistently spent between 3 percent and 5 percent of their revenue in ways that department auditors have determined to be unrelated to patient care or unreasonably high.
- Many long-term care facilities have certified that they will not use the revenue given to them under Chs 10 and 11/85 (AB 160 and SB 53). These rate increases were specifically provided for the purpose of increasing rates of pay and staffing levels. The available data do not permit the department to determine whether a facility spent the funds for extra staffing or granted the required wage increases. Nevertheless, 12.6 percent of facilities have chosen not to expend the funds for these purposes, even though current law requires the DHS to recover misspent funds and assess a 10 percent penalty.
- Salary increases for administrative personnel have consistently exceeded salary increases given to nursing personnel. The CHFC study showed that most facilities have given administrators larger salary and wage increases than those projected by the department, even though the overall rate of increase for salaries and wages fell below the department's projections. At the same time, wages for nurse assistants, housekeeping, and dietary personnel in most facilities have increased at rates lower than those assumed in the department's projections.

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Data on Staffing Increases Needed

We recommend that the department be prepared to report during budget hearings on the feasibility of modifying the AB 180/SB 53 certification worksheets to include nursing hour data so that the department can determine whether facilities are in compliance with laws requiring staffing and wage increases.

Chapters 10 and 11, Statutes of 1985 (AB 180 and SB 53), require long-term care facilities to (1) increase hourly wages for nursing personnel and (2) increase nursing staff. Medi-Cal rate increases paid for the costs of these requirements. Current law requires facilities to certify that the rate increase funds were actually spent as intended.

The department, in conjunction with provider groups, developed a worksheet to gather the information on compliance. The data collected on the worksheet allow the department to determine whether each facility increased its spending on nursing personnel. The worksheet, however, has a serious flaw. It does not gather data on the number of nursing hours paid for during the periods when the facilities were subject to the new requirements. Without these data, it is impossible to determine for the facilities that failed to spend all the additional funds whether the failure was due either to lower-than-required staffing increases or to less-than-required increases in hourly wages.

This oversight should be corrected. Therefore, we recommend that the department report during budget hearings on the feasibility of modifying the certification worksheets in order to gather data on nursing hours provided during the periods subject to certification. With this information, the department will be able to determine whether the long-term care facilities are complying with the provisions of current law.

Long-Term Care Rate Increases Are Likely

We recommend that the Legislature transfer $12,672,000 ($6,336,000 General Fund and $6,336,000 in federal funds) from the Medi-Cal services items to the Medi-Cal rate increase items in order to eliminate overbudgeting of state hospital services and help reduce underbudgeting of rate increases for long-term care facilities.

The budget proposes no funding to increase rates for long-term care facilities, including state hospitals. Under current federal law, rates for long-term care facilities, nevertheless, will increase.

Federal law, in conjunction with California's state plan, requires annual adjustments in reimbursement rates for long-term care facilities. The state's plan specifies a procedure that must be followed in calculating the annual rates of payment for long-term care facilities. Unless the department amends the plan and the federal government concurs with the amendments, the currently established procedure will lead to increases in reimbursement rates for skilled nursing facilities, intermediate care facilities, and state hospitals for the developmentally disabled.

Since we are not aware of any proposal to significantly change the state plan, we conclude that the budget is underfunded. (This is on top of the underfunding that results from the arbitrary reductions imposed by the Department of Finance.) The size of the shortfall cannot be determined at this time, but it is significant. Each 1 percent increase in long-term care rates will result in costs of $13.4 million ($6.8 million General Fund). The actual percentage increases in the rates called for by the state's plan will not be known until updated cost information from long-term care facilities is analyzed.

The budget inadvertently provided funding for a 4.1 percent increase in state hospital rates. The budget for the Medi-Cal program includes $347.9 million ($173.9 million General Fund) for reimbursements to the Department of Developmental Services (DDS) for the cost of serving Medi-Cal eligibles residing in state hospitals. The DDS estimates that, without a cost-of-living adjustment, the cost of serving these patients will be $335.2 million ($167.6 million General Fund). This is $12.7 million ($6.3 million General Fund) less than the amount proposed in the budget.

Taking the administration at its word—no funds for long-term care rate increases—we find that Medi-Cal funds for state hospitals are overbudgeted. Obviously, it would be pointless to recommend that the Legislature delete the $12.7 million when an even greater amount will be needed in 1986–87 to fund rate increases for long-term care facilities. Therefore, we recommend that the Legislature transfer $6,336,000 to the General Fund rate increase item (Item 4260-106-001) and $6,336,000 to the federal rate increase item (Item 4260-106-890), so that it will be available to partially cover the 1986–87 costs of long-term care rate increases.

Process for Budgeting Long-Term Care Rate Increases Should Be Improved

We recommend that as part of the May revision, the Department of Finance provide an estimate of what rate increases for long-term care facilities will cost.

The budget proposes no funding for long-term care facility rate increases, even though the state's plan and federal regulations will make these increases difficult (if not impossible) to avoid.

The cost of rate increases required for long-term care facilities will not be known until after the Department of Health Services completes its annual rate study. In the past, the department has not been able to complete its rate study until after the Department of Finance has submitted its May revision of expenditures to the Legislature. Nevertheless, the department generally has been far enough along in its analysis of the reported costs of these facilities that it could project an approximate percentage increase in the rates. Such an estimate—even a rough estimate—would be of value to the Legislature in doing its fiscal planning if it were included in the May revision, as are other statutory rate increases. The amount in the final budget could be adjusted by the Conference Committee on the Budget Bill to reflect the final rate increases.

We therefore recommend that, as part of the May revision of expenditures for the Medi-Cal program, the Department of Finance provide an estimate of what the increases in long-term care rates called for by the state's plan will cost.

Intermediate Care Facilities for the Developmentally Disabled—Habilitative (ICF/DD-H) Rate Increases Unjustified

We recommend a reduction $2,483,000 ($1,241,000 General Fund) requested for a rate increase for ICF/DD-Hs because the rate increases are not justified.

The budget includes $2,483,000 ($1,241,000 General Fund) for (1) a 9.5 percent increase in the rates paid to intermediate care facilities for the developmentally disabled—habilitative (ICF/DD-Hs) with 4–6 beds and (2) a 5.3 percent increase for those ICF/DD-H facilities with 7–15 beds.

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The increase is intended to cover the cost of upgrading a patient care position to a supervisor position. The funds would be sufficient to provide an additional 56 hours per week of supervisory time.

According to the proposal, current rates are not high enough to encourage providers to invest in the development of new ICF/DD-Hs. A work group established by the DDS, composed of facility administrators, regional center staff, and advocates, concluded that patient care staff were not providing an adequate level of programmed activities due to inadequate supervision. Therefore, the DDS proposed this increase in ICF/DD-H rates to permit the payment of a higher hourly wage to one of the four patient care staff members. The department also proposes to draft and adopt regulations requiring the person hired for this supervisory position to have additional experience in providing developmental services.

There are several problems with the proposed rate increase:

1. ***Rate Increases Have Already Been Granted.*** The rate increases provided in Ch 1336/85 were specifically intended to increase the hourly wages of patient care personnel. These increases already have provided a response to the problem of inadequate supervision that the proposed rate increase is intended to solve. They will improve the ability of these facilities to attract and retain higher-quality staff who will be more likely to provide the required program activities under the current level of supervision.

2. ***Further Rate Increases are Likely.*** The proposed $2.5 million rate increase would be in addition to the normal rate increase for 1986–87. The Department of Health Services will complete another rate study before the end of 1985–86, and rates will be adjusted in August 1986 to reflect the ICF/DD-Hs' most-recent cost experience. It is very likely that this study will find a need for increases in these facilities' rates. In any case, rates will be adjusted to reflect the facilities' actual costs projected into 1986–87. The normal rate increase may provide increases that will be sufficient to stimulate the desired growth in the numbers of ICF/DD-Hs.

3. ***Facilities Already Have Personnel Responsible for Supervising the Programmed Activities.*** These facilities currently are required to employ a qualified mental retardation professional (QMRP) for at least nine hours each week to plan individual programs for residents and to see that these programs are implemented. If supervision of patient care personnel is not adequate, it is indicative of poor performance by the QMRP, rather than a need for additional supervisory personnel.

4. ***The Supervisory Hours Provided are Excessive.*** The ICF/DD-Hs are required to provide a minimum of 56 hours a week of habilitative program activities for each client. Most clients spend a considerable portion of this time—up to 30 hours weekly—outside the facility. The proposal assumes that the facility will employ the supervisor for the full 56 hours each week. This is much more time than would be required to increase the supervision of patient care staff during the time when the facility is providing on-site habilitative programs.

5. ***The Proposal Does Not Take Account of Existing Supervisors and Added QMRP Time Already Reflected in Facility Cost Data.*** According to the DDS, an unknown number of these facilities already have upgraded one of the patient care positions to a lead or supervisory position. Others may have increase QMRP time beyond the minimum nine hours required. To the extent that this has occurred, the cost data from these facilities already reflect the added costs of the proposed requirement.

For all of these reasons, we conclude that the proposal for a further increase in the rates for ICF/DD-Hs is unwarranted at this time. We therefore recommend that the Legislature delete the funds requested for ICF/DD-Hs.

As we have pointed out elsewhere, the budget as proposed does not contain adequate funding for long-term care facility rate increases. Adequate funding is likely to require much more than the amount we recommend to be reduced here, but this amount could be used to offset some of these unbudgeted costs. Nevertheless, we hesitate to suggest any specific use of the funds that would be saved by accepting our recommendation until it is clear that the administration will not, and the Legislature must, provide the funds necessary to support the service levels proposed for 1986–87.

No Funding for ICF/DD-Ns Budgeted

We recommend that during budget hearings, the Department of Finance report on how it expects to fund the costs of Medi-Cal reimbursement for ICF/DD-N services during 1986–87.

The budget includes no funds for the costs of ICF/DD-N clients because the reimbursement rates for these facilities have not been established.

Chapter 1496, Statutes of 1985 (SB 851), established a new category of long-term care facility, intermediate care facility for the developmentally disabled—nursing (ICF/DD-N). These facilities are intended to provide care for developmentally disabled persons who require more medical attention than can be provided in community care facilities or other long-term care facilities. The department is requesting additional positions in the Licensing and Certification Division and in Medi-Cal field offices to support these new facilities.

Although the department's implementation schedule assumes that an average of 500 ICF/DD-N recipients per month will be supported by the Medi-Cal program during the last six months of 1986–87, our review indicates that this caseload is overstated. The schedule for licensing these facilities would allow for no more than an average of 330 recipients per month. Based on estimates of the rates provided for this facility category, a caseload of 330 recipients would result in a cost of $3.5 million ($1.8 million General Fund) during 1986–87.

Even though the budget has made no provision for the services that ICF/DD-N clients will require, the state will incur costs to reimburse the facilities providing these services. Thus, here again, the administration has underbudgeted program costs. We therefore recommend that during budget hearings, the Department of Finance report on how it expects to fund the costs of Medi-Cal reimbursement for ICF/DD-N services during 1986–87.

Caseload Estimates Need to be Reconciled

We recommend that the Department of Finance (1) reconcile the discrepancy between the SSI/SSP aged caseloads and the refugee caseloads prepared by the Departments of Health Services and Social Services and (2) report prior to budget hearings on any changes that may be warranted in the amounts requested for SSI/SSP, Refugee Cash Assistance, and Medi-Cal.

The Department of Health Services estimates that the numbers of both refugees and SSI/SSP aged recipients will decrease in the budget year. In

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contrast, the Department of Social Services estimates that the number of eligible persons in these two programs will increase. This discrepancy was not picked up either by the Health and Welfare Agency or by the Department of Finance in reviewing the two departments' budget submissions.

We discuss the details of these conflicting estimates in our analyses of Item 5180-111-001 (SSI/SSP) and Item 5180-131-866, where we recommend that the Department of Finance reconcile the conflicting estimates and report prior to budget hearings on any changes that may be warranted in the amounts requested for the affected programs.

Adult Day Rate Study Overdue

We recommend that prior to budget hearings, the department (1) report the reasons for the delay in submitting to the Legislature the Adult Day Health Care program rate methodology and (2) describe the steps it is taking to ensure timely establishment of these rates in the future.

Chapter 1624, Statutes of 1984, required the Department of Health Services to submit to the Legislature, by January 1, 1986, a rate methodology for adult day health care (ADHC) centers. The department was also required to implement a uniform data collection and cost reporting system by January 1, 1985, for use in rate determination. A discussion of the uniform data collection system can be found in our analysis of the Department of Aging (Item 4170-001-001).

As of January 1986, the department had not submitted the required rate methodology to the Legislature. Until a reimbursement methodology is implemented, ADHC centers will be reimbursed at the maximum approved Medi-Cal rate. Consequently, the delay in establishing ADHC rates may result in increased costs to the state.

Given the importance of these rates, we recommend that prior to budget hearings, the department (1) report the reasons for the delay in submitting the required rate methodology and (2) describe the steps it is taking to ensure timely submission of future rates.

No Savings Budgeted for Asset Clearance Match

We recommend that during budget hearings, the Department of Health Services report on (1) the savings which are expected to occur in the Medi-Cal program due to the asset clearance match and (2) the potential for achieving additional savings by including medically needy recipients in the match program.

The Department of Social Services (DSS) currently operates a computer system to match welfare records with the Franchise Tax Board's records of interest earnings in order to identify cases where the resource limits may have been exceeded. Questionable cases are referred to county welfare departments and to the Department of Health Services for investigation. Investigations can result in persons becoming ineligible for the AFDC and Medi-Cal programs. The Department of Social Services estimates that this program will reduce state AFDC expenditures by $8.6 million $4.3 million General Fund) in 1986–87.

We recommend that during hearings the department report on (1) the savings expected due to the asset clearance system as it is now conducted, and (2) the potential for achieving additional savings during 1986–87 through investigation of medically needy recipients who may have resources in excess of allowable limits.

Additional Federal Funds May Be Available

We recommend that during budget hearings, the Department of Finance provide a status report on California's request for retroactive federal funding of state hospital costs and an estimate of the amount of federal funds California expects to receive.

During a routine review, *federal* auditors noted that the costs used to calculate the rate of reimbursement for state hospitals under the Medi-Cal program were understated because they did not include a portion of costs of the central administrative staff of the department. These costs justify a 5.8 percent increase in the reimbursement rates for state hospitals, and thus the 5.8, percent increase in the federal government's share of reimbursement costs.

According to the Department of Health Services, it may be possible to claim additional federal funds for past years on a retroactive basis. These claims could amount to as much as $15 million during 1986–87.

We recommend that during budget hearings, the Department of Finance advise the Legislature on the status of these claims.

PHP Costs Exceed Fee-for-Service Costs

We recommend that the Legislature adopt Budget Bill language directing the department to revise its PHP rate methodology for a savings of $4.7 million ($2.35 million General Fund).

Background. Expansion of Medi-Cal enrollment in California's prepaid health plans (PHPs) has been encouraged, based on the premise that increased PHP enrollment reduces Medi-Cal costs. Indeed, during past years, PHP rates, in the aggregate, have been less than the equivalent fee-for-service (FFS) costs. The PHPs' lower costs usually are attributed to the incentive structure that PHP providers face. By prepaying for health care costs on a capitated basis, the state reduces any incentives that PHPs might have to provide unnecessary services and introduces incentives for them to prevent illness.

In 1984–85, for the first time, PHP rates were set at a level that was equal to FFS costs as calculated by the department. This was true in each of the four categories for which individual rates are paid: family, aged, blind, and disabled.

By law PHP rates cannot exceed the equivalent costs, including the costs of "administration," in the FFS system. In past years, the department defined "administration" to include the amount of indirect costs that the state would save for each Medi-Cal eligible who enrolled in a PHP. These savings arise because with fewer FFS claims to be processed, the cost of utilization review activities, checkwriting, and postage go down.

In 1984–85, the department began defining "administration" to include additional indirect costs. These costs include the total costs associated with the Fiscal Intermediary Management Division (FIMD), the total cost of the CSC contract, and 50 percent of each of the Field Services Branch, Audits and Investigations Division, and the Health Insurance Section of the Recovery Branch. When these administrative costs are added to FFS equivalent costs, it increases by $1.68 per month the amount that PHP rates can be raised without exceeding the FFS standard.

The problem with this change in methodology is that the additional administrative costs could *not* be saved merely by converting a few thousand participants to the PHP system. They could be saved only if the *entire* Medi-Cal population enrolled in capitated programs.

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As a result of this change, the state now pays *more* for certain Medi-Cal beneficiaries enrolled in PHPs than it would if these beneficiaries obtained their health care services in the FFS system. Every additional categorically eligible person who switches from FFS to the PHP system increases state costs by $1.68 per month.

Paying a premium to PHPs would be appropriate if it could be shown that California's PHPs offer higher-quality or more accessible health services, or that enrollees are healthier as a result of PHP care than comparable FFS users. We are not aware of any evidence, however, that this is the case in California. Consequently, we recommend that the Legislature adopt the following Budget Bill language directing the department to revise the rate methodology it uses to determine FFS equivalent costs so that it recognizes only those FFS costs that are likely to be avoided if additional Medi-Cal beneficiaries enroll in PHPs:

> "It is the intent of the Legislature that the rate methodology used to determine fee-for-service equivalent costs for the Medi-Cal prepaid health plan program shall include only those administrative costs likely to be avoided if additional Medi-Cal beneficiaries enroll in prepaid health plans."

We also recommend that the Legislature reduce by $4.7 million ($2.35 million General Fund) the health care services item to reflect the savings that would result from use of the revised rate methodology.

We recognize, as we have elsewhere in the analysis of Medi-Cal programs, that the proposed budget falls short of what would be required to provide the service levels required under current law. But we hesitate to recommend that savings identified here be used to provide the necessary funds until it is clear that the administration will not propose to adequately fund these programs.

Technical Errors Need Correction

We recommend a reduction of $1,532,000 ($103,000 General Fund, $663,000 SAFCO, and $766,000 in federal funds) to correct technical errors in prepaid health plan costs.

The budget inappropriately includes $207,000 ($103,000 General Fund) for a prepaid health plan (PHP) that no longer has a Medi-Cal contract. The proposed budget also double-counts some beneficiaries in its estimate for ongoing PHP enrollment and the new Expanded Choice pilot. The result is the double-budgeting of $1,325,000 ($663,000 SAFCO) in "pipeline" costs. Therefore, we recommend a reduction of $1,532,000 (including $103,000 General Fund, $663,000 SAFCO, and $766,000 in federal funds) to correct PHP population estimates and resultant costs.

B. COUNTY ADMINISTRATION

The budget proposes $134,994,000 ($60,266,000 General Fund) for county welfare departments to support Medi-Cal eligibility determinations for medically needy Medi-Cal beneficiaries in 1986–87. The costs of eligibility determinations for categorically eligible (AFDC and SSI/SSP) beneficiaries are funded either through Item 5180-141 in the Department of Social Services or by the federal Social Security Administration.

The total cost of Medi-Cal eligibility determinations is expected to decrease by $7 million, or 4.9 percent, in 1986–87. The reduction reflects one-time costs for certain court cases, retroactive payments to Los Angeles County, and federal expenditures for county cost-of-living adjustments granted in previous years that will not reoccur in 1986–87. General Fund expenditures for Medi-Cal eligibility determinations are expected to increase by $7.2 million, or 14 percent in, 1986–87. The major reason for the increase is that the ratio of General Fund-to-federal fund expenditures will return to normal in 1986–87. General Fund costs in 1985–86 are expected to be abnormally low due to the receipt of $7.9 million in federal funds and reimbursements for prior-year expenditures.

Estimates of 1985–86 expenditures indicate that General Fund costs for county eligibility determinations will be $631,000, or 1.3 percent, higher than the amount appropriated for these costs in the 1985 Budget Act. The deficit is due primarily to an overestimate of assessments against counties for excess eligibility determination denial rates.

Table 33 displays estimated and proposed expenditures for county administration in 1985–86 and 1986–87.

Table 33
Medi-Cal County Administration
Proposed 1986–87 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
A. Funds available, 1985 Budget Act		
1. Eligibility item	$52,371	$123,264
2. Federal refugee reimbursements	—	402
3. Federal fund and reimbursement adjustments	—	12,493
Subtotals, 1985–86 expenditures (Budget Act)	$52, 371	$136,159
B. Unanticipated 1985–86 changes		
1. Intake caseload increase—L.A. county hospital	$104	$208
2. Social Security account number project	69	138
3. Reestimated cost of HR 4170 implementation	−1,139	−2,278
4. Termination of two-person households maintenance need level adjustments	−143	−287
5. Federal fund pass-ons for 1984–85 COLA	—	8,152
6. *Johnson* v. *Rank* retroactive settlement	71	143
7. Reduced estimate of amount withheld from counties for excess denial rates	2,031	—
8. Decreased caseload	−374	−512
9. Other changes	62	252
C. 1985–86 expenditures (estimated)	$53,052	$141,975
D. Projected current year deficiency	(681)	(5,816)
E. Budget year changes		
1. Elimination of one-time reimbursement adjustments	7,962	—
2. Income status reporting pilot project	172	345
3. SAWS—automated eligibility determination	−124	−248
4. Retroactive court settlements	−1,477	−2,954
5. Elimination of one-time payment adjustment to L.A. county	−1,589	−1,589
6. Elimination of federal fund pass-on for 1984–85 COLA	—	−8,152
7. Development of a cost-avoidance recovery system	50	500
8. 4.8 percent COLA	1,906	3,799
9. Early periodic screening, diagnosis, and treatment case management caseload changes	195	828
10. California Children's Services case management caseload changes	218	702
11. Other changes	−99	−212
F. 1986–87 expenditures (proposed)	$60,266	$134,994
G. Change from 1985–86 (estimated)		
Amount	$7,214	−$6,981
Percent	13.6%	−4.9%

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Productivity Increases Expected

We recommend a reduction of $1.4 million in order to reflect the savings from increased productivity standards.

The proposed $134,994,000 ($60,266,000 General Fund) appropriation for local assistance to county welfare departments is based on a cost control plan. This plan specifies the amount each county will receive to administer various eligibility determination programs, as well as the productivity standards for each county. These standards set the number of applications to be processed (intake cases) and the number of approved cases to be maintained (continuing cases), per eligibility worker. The standards for a given county must equal the county's prior performance or the average performance of counties of similar size, whichever is higher.

The Budget Act of 1985 requires the department to recalculate workload standards using 1984–85 as the base year for the 1986–87 cost control plan. Because the 1984–85 county productivity figures are higher than current productivity standards, we estimate that use of the new standards will reduce the amount required for county eligibility determinations by $1.4 million, for a General Fund savings of this amount.

Consequently, we recommend that the Legislature reduce by $1.4 million the General Fund appropriation for local assistance to counties for eligibility determination costs, in order to reflect productivity changes.

Responsibilities Transferred

We recommend a reduction of $335,500 ($168,000 General Fund) in local assistance to San Diego County because under the Expanded Choice program, county presentations to Medi-Cal beneficiaries regarding prepaid health plans will no longer be necessary.

The budget includes $366,000 ($183,000 General Fund) for San Diego County so that it can continue to make presentations to Medi-Cal applicants regarding prepaid health plans. Currently, during the eligibility determination process, county personnel present Medi-Cal applicants with a choice between enrollment in the fee-for-service Medi-Cal system or enrollment in a prepaid health plan.

Beginning in August 1986, this function will be performed by a private contractor as part of the Expanded Choice program. Consequently, we recommend a reduction of $335,500 ($168,000 General Fund) in San Diego County's allocation. This would eliminate funding for the August 1986-to-June 1987 period, while leaving sufficient funds to cover the cost of presentations made in July.

Implementation Delay Affects Workload

We withhold recommendation on $81,300 ($40,650 General Fund) proposed for county eligibility determination workload increases due to the Greater Avenues to Independence (GAIN) program.

The budget proposes $81,000 ($40,650 General Fund) for expected increases in county eligibility determination costs due to implementation of the Greater Avenues of Independence (GAIN) program. The GAIN program and our recommendations regarding it are discussed in our analysis of the proposed budget for the Department of Social Services (Item 5180-151-001).

The Medi-Cal budget assumes that 80 percent of those persons whose eligibility for AFDC is ended due to the GAIN program will become eligible for Medi-Cal as medically needy. This would increase county administrative costs for the Medi-Cal program.

The budget request for these additional costs assumes a January 1, 1986, implementation date for the GAIN program. Since implementation of the program has been delayed, we withhold recommendation on the amount proposed for GAIN—related workload, pending receipt of a revised implementation schedule and cost projection. This information will be included in the May revision.

C. MEDI-CAL CLAIMS PROCESSING

The Department of Health Services does not directly pay doctors, pharmacists, nursing homes, or other providers for the services they render. Instead, the department contracts with fiscal intermediaries for Medi-Cal fee-for-service claims processing. Currently, the department has processing contracts with the Computer Sciences Corporation (CSC) and two other vendors. In addition, the department reimburses (1) the State Controller's office for printing and mailing checks to Medi-Cal fee-for-service providers and (2) the State Treasurer's office for redeeming Medi-Cal warrants. Payments to organized health systems and to providers of mental health services under the Short-Doyle Act are processed directly by the department or, in the case of the Redwood Health Foundation and the California Dental Service, by the health system itself.

Current-Year Costs Will Exceed Amount Appropriated

The budget anticipates that General Fund expenditures for claims processing in the current year will be $724,000, or 9.4 percent, higher than the amounts appropriated. Overall spending for fiscal intermediary services is $2.7 million above the amounts appropriated. Table 34 summarizes the estimated and proposed expenditures for Medi-Cal claims processing in 1985–and 1986–87.

The current-year deficiency is primarily due to the unanticipated increase in cost reimbursement claims made by Computer Sciences Corporation. This increase of $1.9 million ($485,000 General Fund) reflects the final settlement on the cost reimbursement methodology required under the contract.

Budget-Year Increase Due to Transfer of Dental Administrative Costs

The budget request for claims processing is $7.1 million ($4.8 million General Fund) above estimated 1985–86 costs. This increase is attributable to the transfer of processing costs associated with dental claims from the Medi-Cal health benefits subitem to the fiscal intermediary subitem. Costs for other fiscal intermediary operations are expected to decline between the current and the budget years, due to (1) elimination of $3.5 million in one-time 1985–86 costs and (2) a $650,000 decrease in base operations costs under the CSC contract. These reductions more than offset a $2 million increase in CSC change order costs due to:

- Higher cost for automation of the treatment authorization request (TAR) system.
- New costs for operating a cost avoidance system to improve third-party payments for Medi-Cal eligibles.
- Contract for child health and disability prevention claims processing.

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Table 34
Medi-Cal Claims Processing
Proposed 1986–87 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
A. Funds available, 1985 Budget Act		
1. Fiscal intermediary item	$6,710	$28,143
2. Refugee reimbursements	—	120
3. Provision 1 (settlements of prior-year federal issues)	—	1,129
Subtotals	$6,710	$29,392
B. Unanticipated current-year expenditures		
1. Computer Sciences Corporation contract		
a. Cost reimbursement	$485	$1,941
b. Change orders	69	329
c. Other changes	64	148
2. Medicare crossover contract	35	138
3. State Controller's office	31	118
4. Reduced refugee reimbursements	32	—
5. Revised federal sharing ratio	10	—
C. 1985–86 expenditures (estimated)	$7,434	$32,066
D. Projected current year deficiency	($724)	($2,674)
E. Budget year changes		
1. Computer Sciences Corporation contract		
a. One-time 1985–86 costs	−$882	−$3,500
b. Various workload adjustments	−236	−726
c. Change orders		
(1) Third-party cost avoidance	100	1,000
(2) Increase in change order costs	258	1,014
2. Medicare crossover contract	32	129
3. State Controller's office	20	89
4. Transfer of dental fiscal intermediary costs from Medi-Cal services item	4,087	8,174
5. Child Health and Disability Prevention program claims processing contract	293	900
6. Reduction in refugee reimbursements	5	—
7. Reduction of Provision 1 funds	1,129	—
F. 1986–87 expenditures (proposed)	$12,240	$39,146
G. Change from 1985–86 (estimated)		
Amount	$4,806	$7,080
Percent	64.6%	22.1%

Computer Sciences Corporation Performance

In July 1984, Computer Sciences Corporation (CSC) began processing Medi-Cal claims under the terms of a new contract. The contract instituted several important changes in the requirements imposed on the Medi-Cal fiscal intermediary. Experience under the new contract is now sufficient to allow an assessment of CSC's performance in meeting contract requirements. The following review focuses on three areas of performance: (1) claim cycle times, (2) provider services, and (3) systems development activities.

CSC Failed to Meet Standards for Claim Processing Timeliness in 6 Out of 12 Months. The contract sets an overall claim processing standard of 18 days and separate standards for several claim types, including pharmacy (17 days); long-term care (8 days); inpatient (25 days); outpatient (25 days); medical professional (25 days); and equipment, transportation, prosthetics, and orthotics (25 days). Table 35 shows the average claim volumes, percent of claims denied, and maximum and minimum cycle times during 1985.

Between November 1984 and October 1985, CSC failed to meet the contract's standards six times. The overall cycle time standard was exceeded three times. The standard for pharmacy claims was exceeded for three of the months during this period, and the standard for long-term care claims was exceeeded once. Standards for all other claim types were met during each of the 12 months. In the most recent month for which data were available (October 1985), CSC processed claims well within the times set by the contract.

Table 35

Medi-Cal Claims Volume and Cycle Times [a]
January through November 1985

	Average Monthly Claims Volume	*Average Monthly Payments (in millions)*	*Average Monthly Cycle Time (in days) [b]*	
			Standard	*Range of Actual Performance*
Pharmacy	1,949,092	$24.5	17.0	12.0 to 18.8
Long-term care	104,532	97.7	8.0	3.5 to 9.6
Inpatient care	67,193	122.8	25.0	12.3 to 21.6
Outpatient care	993,768	23.0	25.0	14.8 to 23.6
Medical	4,004,075	90.0	25.0	8.8 to 19.4
Vision care	108,021	2.6	25.0	11.4 to 20.8
Totals	7,226,681	$360.5	18.0	12.6 to 18.7

[a] Source: Department of Health Services.
[b] Cycle time data for November 1984 through October 1985.

Whenever CSC fails to meet the cycle time requirements of the contract, the department withholds 10 percent of the payments under the contract until the requirements are met. Once the standards are met, the funds are released to CSC. Funds were withheld from CSC for 6 out of the 12 months between November 1984 and October 1985.

Some Services to Providers Are Not Adequate. The contract requires CSC to provide a range of services to assist providers in accurately completing their medical claims. These services include the following:

- ***Provider Manuals and Bulletins.*** CSC is required to print and disseminate (1) provider manuals to newly enrolled providers, (2) manual updates, and (3) bulletins with information useful to Medi-Cal providers.
- ***Quarterly Training Sessions.*** The contract requires that quarterly training sessions be open to the public and presented throughout the state. The CSC representatives have conducted 148 training sessions since July 1984. Provider reactions to these seminars have been positive.

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- ***Toll-Free Lines.*** The contract requires CSC to install 40 toll-free lines, staffed to accept provider inquiries. Computer Sciences is required to have the capability of putting the caller on hold when all lines are busy and taking the calls in order.

  The *CSC is not providing adequate access to the toll-free lines.* A department study recently found that 76 percent of calls placed at regular intervals between 8:00 a.m. and 5:00 p.m. encountered a busy signal. Another 15 percent received the recording requesting that the caller hold, and only 9 percent of the calls were answered by an operator.
- ***Regional Services Representatives.*** As required by the contract, CSC has established six regional offices with staff trained to visit providers in order to assist them with major billing concerns and related matters. The contract requires representatives to schedule on-site visits within 20 days of the initial provider request. Recent staff turnover in at least one office has resulted in CSC's failure to meet the 20-day standard. According to the department, providers have reacted positively to the availability of trained staff to help with billing problems. These staff also help CSC by encouraging providers to install billing systems that permit submission of claims on computer tapes or diskettes.

Systems Development Group Performs Well. The contract requires CSC to hire systems analysts to undertake system enhancements and modifications that are needed due to changes in federal or state laws. The number of system analysts has increased from a low of 5 in January 1984 to a high of 30, the maximum required under the contract. This group completed 94 separate enhancements during 1984 and another 21 during 1985. This contract feature allows the claims processing system to be updated in a timely manner to reflect changes in the rules governing the Medi-Cal program. It also allows the state to initiate other improvements without separate negotiations, which took place under the former change order process.

Installation of Dental Claims System Delayed

The California Dental Service (CDS) began processing claims for Medi-Cal dental services under the terms of a new contract, beginning in November 1985. The department awarded the bid to CDS in November 1984 following a competitive bidding process. The department estimates that the contract will result in first-year savings of $23 million relative to the old contract. In addition, the new contract enhances the state's ability to monitor dental claims processing services. Specifically, the contract provides for:

- State review and approval of changes in dental benefits.
- Authority to withhold payments for services if performance standards are not met.
- Improved information concerning dental services reimbursed and claims processing performance.
- Development and installation of an improved automated claims processing system.

The terms of the contract required the new system to be ready for testing by August 1985 and to be operational when claims processing under the new contract began in November. The system is not yet operational. Development has been completed, and the department began acceptance testing on January 15, 1986. If the testing does not detect major problems, the new system could be operational by mid-April 1986.

The department has negotiated a change order with CDS. Under the terms of the change order, the state will not impose liquated damages, as permitted by the contract, for failure to complete the design, development, and installation of the system within specified time limits. Damages under the original contract could exceed $5,000 a day for failure to complete the new system. The change order provides that CDS must continue processing claims under existing methods until the new automated system has been tested, approved, and installed.

In the interim, CDS will be reimbursed at the rates established for the new system. This change will reduce CDS revenues and provide an incentive for CDS to rapidly implement the new automated system in order to realize operational efficiencies. Until the new system is operational, the state will realize the benefit of a lower price for claims processing services but must accept incomplete management information reports. In addition, delayed development of the system will delay the time when the system will qualify for enhanced federal funding.

Savings Due To Expanded Choice Not Budgeted

We recommend that the Legislature delete $176,000 ($44,000 General Fund) from the Budget Bill to reflect the reduced workload that will result from implementation of the Expanded Choice pilot project.

The department expects to implement the Expanded Choice pilot program in San Diego during August 1986. Under this program, persons now using fee-for-service care will be required to enroll in prepaid health plans. This will result in the savings for:

- Postage ($53,000).
- Checkwriting ($123,000).

The budget for 1986–87 has not been adjusted to reflect these savings. Therefore, we recommend that the Legislature reduce the amount budgeted by $176,000 ($44,000 General Fund) to reflect the reduced workload due to the Expanded Choice pilot.

Funds for Change Orders Overbudgeted

We recommend that the Legislature reduce by $506,000 ($190,000 General Fund) the amount budgeted for change orders because the need for these funds has not been established.

The funds requested for fiscal intermediary services include $250,000 ($62,500 General Fund) in the current year and $506,000 ($190,500 General Fund) in the budget year for change orders that have not yet been identified. (Change orders are modifications to the automated system for processing Medi-Cal claims). The amount requested for change orders is based on past experience.

The requirements for change orders vary greatly from year to year. Moreover, even the costs projected for *identified* change orders have been very inaccurate.

In recent years, the budget has included funds only for identified change orders. Additional change orders that are required during the course of the year have been supported by redirecting funds or through deficiency appropriations.

Because the need for these unspecified change orders has not been established, we recommend that the Legislature delete the $506,000 ($190,000 General Fund).

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D. MEDI-CAL STATE ADMINISTRATION

The budget proposes $125.1 million ($42.5 million General Fund) for state administration of the Medi-Cal program in 1986–87. This represents an increase of $11.2 million, or 9.8 percent, in *total* funds budgeted, and an increase of $2.9 million, or 7.4 percent, in *General Fund* support. Table 36 displays Medi-Cal state administrative expenditures in 1985–86 and 1986–87. The amounts shown for departments other than the Department of Health Services include General Fund appropriations made for those departments and the federal fund matches that the departments receive from the Department of Health Services as reimbursements.

Table 36
Medi-Cal Program
State Administration Expenditures
1985–86 and 1986–87
(dollars in thousands)

	Estimated 1985–86		*Proposed 1986–87*		*Percent Change in*
	General Fund	*All Funds*	*General Fund*	*All Funds*	*General Fund*
Department of Health Services	$34,387	$102,085	$37,112	$110,431	7.9%
Department of Social Services	3,770	9,077	3,958	11,849	5.0
California Medical Assistance Commission	952	1,731	994	1,846	4.4
Department of Aging	422	1,055	391	997	−7.3
Totals	$39,531	$113,948	$42,455	$125,123	7.4%

Note: Funds are shown where they are actually spent, not where they are appropriated. All federal funds shown for departments other than Health Services are appropriated in the budget for Health Services and then transferred to the department where the funds are expended.

The proposed increase in spending by the Department of Health Services primarily reflects increases for external contracts intended to (1) implement Expanded Choice enrollment functions ($1.6 million) and (2) develop an automated third-party liability recovery system ($3.5 million). The increase in total expenditures by the Department of Social Services results from an adjustment of federal funds required for that department. In recent years, the amount of federal funding provided to DSS in the Budget Act has not been sufficient, and the Director of Finance has had to supplement these funds using authority given to him by Section 28 of the Budget Act. The estimated costs for 1985–86 shown in Table 36 do not reflect the increase in federal funds that will be required in the current year.

The budget proposes support for 1,335.8 positions in the Department of Health Services that can be attributed directly to administration of the Medi-Cal program. This is 59.2 positions, or 4.2 percent, less than the number of authorized positions in 1985–86. The decrease reflects the expiration of 42.5 limited-term positions and the net reduction of 16.7 permanent positions.

Table 37 shows the changes in Medi-Cal-related positions proposed for the budget year. It does not reflect positions in the department's administrative units whose costs are distributed for funding purposes to the Medi-Cal program.

Table 37
Medi-Cal Program
Proposed Positions in the
Department of Health Services [a]
1986–87

Program	*Existing Positions*	*Limited-Term Positions*	*Proposed Changes*	*Proposed Positions*	*Percent Change*
Eligiblity	64.6	−5.2	0.9	60.3	−6.7%
Benefits	38.8	—	−1.0	37.8	−2.6
Rate development	38.1	—	—	38.1	—
Contract operations	55.0	—	17.0	72.0	30.9
Utilization control	414.6	−8.3	−18.1	388.2	−6.4
Health recovery	218.8	−1.0	−15.5	202.3	−7.1
Fiscal intermediary	123.4	−26.0	25.0	122.4	−0.8
Program development	26.1	—	−5.0	21.1	−19.2
Audits and investigations [b]	415.6	−2.0	−20.0	393.6	−5.3
Totals	1,395.0	−42.5	−16.7[c]	1,335.8	−4.2%

[a] Additional positions paid for by the Medi-Cal program are located in the divisional offices supervising the above programs and in the Administration Division.
[b] This includes the 92 percent of the positions in Audits and Investigations Division attributable to Medi-Cal program activities.
[c] The total includes a reduction of 58.6 positions, an addition of 43.9 permanent or limited-term positions and the transfer of 2 positions.

Proposed Changes Which Should Be Approved

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

- A reduction of one position due to the transfer of rural health clinic claims processing activities to the Medi-Cal fiscal intermediary.
- A reduction of one vision care consultant in the benefits program.

Status Report Needed on Statewide Automated Welfare Systems

We withhold recommendation on the staff changes requested for the development of welfare computer system standards, pending receipt of the annual progress report.

The budget reflects a $4,000 ($2,000 General Fund) reduction due to several changes in staffing budgeted for the Statewide Automated Welfare System (SAWS) development. The 1986–87 budget includes a total $171,000 ($85,000 General Fund) for SAWS activities. The changes include:

1. Conversion of four limited-term positions to permanent positions. Two of these positions were due to expire on December 31, 1986, and two were to expire at the end of 1986–87.

2. Transfer of five positions to the Department of Social Services, of which three were to expire at the end of the current year and two were to expire during 1986–87.

The Department of Social Services is required to prepare an annual report on its progress in achieving the goals established for the SAWS program. We withhold recommendation on the changes proposed in the budget for SAWS, pending review of the annual progress report. Any

DEPARTMENT OF HEALTH SERVICES—Continued

decision concerning continued funding for this project must consider what progress has been made in meeting its stated goals.

Recommendation Needed on Permanent Staffing Needs

We recommend that at the time of budget hearings, the Department of Finance advise the Legislature whether it intends to propose a permanent staffing level for the Fiscal Intermediary Management Division for 1986–87.

The *Supplemental Report of the 1985 Budget Act* directed the Department of Finance to review the staffing needs of the Fiscal Intermediary Management Division, in order to determine the appropriate permanent staffing level for the division. The study was not completed in time to guide the department during compilation of the division's 1986–87 budget request. Consequently, the budget requests an extension of the current limited-term positions for one additional year. The extension will give the administration and the Legislature more time to consider the division's staffing needs.

The required review is near completion and could be used as the basis for determining permanent staffing requirements for 1986–87. We therefore recommend that the Department of Finance report at budget hearings whether it intends to propose a permanent staffing level for the division for 1986–87.

Medi-Cal Field Office Staffing Changes Available

We recommend that the Department of Finance report during budget hearings on the staffing changes that would be needed to implement the recommendations of the Department of Health Services task force on Medi-Cal field office productivity.

In accordance with the requirements of the *Supplemental Report of the 1985 Budget Act*, the Department of Health Services reviewed the Medi-Cal field office staffing standards study that was prepared by the Department of Finance. This review was conducted by a task force consisting of three field office administrators who sought to determine what accounted for differences in productivity among the field offices.

The task force suggests that improvements can be made in the staffing pattern of Medi-Cal field offices that will improve productivity. The task force made the following recommendations that would require budget changes to implement:

- Increase the number of nurse evaluators and medical technicians. According to the task force, the field offices are increasingly successful in employing these classifications in utilization review activities under the guidance of a medical consultant.
- Reclassify medical consultant positions to office assistant and medical technicians. The task force found that the most productive field offices are those with effective and adequately staffed clerical office systems. Inadequate clerical support leads to medical personnel performing clerical functions. Increasing clerical personnel increases productivity, particularly of the medical technicians.

Our analysis of the field office staffing standards study and discussions with field office staff lead us to conclude that the recommendations are sound and would increase field office productivity and reduce overall costs.

The Department of Finance has made no proposals to implement the task force's recommendations. We recommend that the department report during budget hearings on the budgetary changes that would be needed to implement these recommendations.

Feasibility Study Report Not Yet Available

We withhold recommendation on a reduction of 13.5 positions for the development of an automated case management system, pending receipt of additional information from the department.

The budget proposes a reduction of 13.5 positions and an augmentation of $405,000 ($202,000 General Fund) to implement an automated case management system in the Casualty/Worker's Compensation Section of the Recovery Branch. The casualty/workers' compensation program identifies and collects funds due the state from liable third parties for casualty and work-related injury cases involving Medi-Cal beneficiaries.

Under the current system, billing and payment data are prepared and maintained manually. The department estimates that an automated system would reduce staff time by 20 percent per case. At the time this analysis was prepared, we had not received the feasiblity study report (FSR) for the proposed system. The FSR will provide details on system operations and expected costs and benefits.

We cannot recommend action on this request without the information contained in the FSR. Therefore, we withhold recommendation on the funding requested for the automated system and the associated position reductions, pending receipt of additional information from the department.

More Information Needed on New System to Bill Insurance Carriers

We withhold recommendation on $5,000,000 ($500,000 General Fund) requested for a proposed new system to improve third-party payment of Medi-Cal claims, pending receipt of additional information.

The budget proposes $5,000,000 ($500,000 General Fund) to implement a new system of processing Medi-Cal provider claims for beneficiaries with other health coverage.

The current method of Medi-Cal claims payment allows providers to bill and receive payment from Medi-Cal whether or not a beneficiary is covered by an insurance carrier or other third party. After a Medi-Cal claim is paid on behalf of a beneficiary with known third-party coverage, the department attempts to collect the amount it paid from the third party. The department indicates that this "pay and chase" method is ineffectual and that 75 percent of its bills to insurance carriers are not paid. The current system also severely limits the amount of information that can be used from insurance companies.

Recent federal regulations mandate an alternative method of collecting information that will permit the fiscal intermediary to refuse Medi-Cal payment for beneficiaries with known health insurance. The department estimates that the system will save $19 million ($9.5 million General Fund) annually.

The budget proposes expenditures for five separate components of the new system:

- $500,000 to improve automated systems, such as the Medi-Cal Eligibility Data System (MEDS), to permit them to handle more insurance information.

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- $500,000 in local assistance to counties to fund changes in their computer systems.
- $2.5 million to redesign the Other Health Coverage Master System to provide claims summaries, monitor third-party liability coverage, and allow billing for specific covered services for an individual beneficiary.
- $1 million to implement changes required at Computer Sciences Corporation (CSC).
- $500,000 to provide ongoing beneficiary file matches with insurance companies.

At the time this analysis was written, we had not received information regarding the system design, costs, or estimated savings. We withhold recommendation on the $5 million proposal, pending receipt of this information.

Primary Care Case Management Expansion Completed

We recommend approval.

The budget proposes a reduction of $172,000 ($86,000 General Fund) and four positions due to the implementation of the Primary Care Case Management (PCCM) program. The budget also proposes to reduce $64,115 ($32,057 General Fund) and one supervisory position associated with these four positions as part of mandated supervisory/staff reductions.

A federal waiver allows the department to enter into pilot contracts with primary care providers under which all medical care, including referrals, consultation, and hospital admissions is provided for specified beneficiaries. Providers are at-risk and are paid an amount equal to 95 percent of the equivalent fee-for-service costs.

The department indicates that the pilot project will include up to 18 contracts with providers by the end of 1985–86, and that no more contracts are necessary to adequately evaluate the pilot project. Consequently, the budget proposes to eliminate four positions that have been associated with the development of new PCCM contracts.

We have reviewed the department's proposal and conclude that it will not be necessary to execute additional contracts. We also conclude that the proposed reduction of the supervisory position associated with the PCCM development positions will not hinder ongoing program efforts. Therefore we recommend that the Legislature approve the proposal.

Administration's Plans for Statewide Expansion of "Gatekeeper" Unknown

We recommend that the department report to the Legislature during budget hearings on its plans to implement statewide preadmission screening.

Chapter 1637, Statutes of 1984 (AB 2226), required the department to implement a preadmission screening or "gatekeeper" program in five Medi-Cal field offices starting in 1984–85. The purpose of the program is to screen Medi-Cal beneficiaries who are applicants for placement in a nursing home to determine if they could be more appropriately maintained in the community using home-based health and social services. This program is discussed further in *the 1986–87 Budget: Perspectives and Issues* and in connection with the In-Home Supportive Services program (Item 5180).

The budget makes no mention of the statewide implementation required by Chapter 1637. It is unlikely that this program can be effectively implemented without a staffing increase or redirection of staff resources. Consequently, we recommend that the department report during budget hearings on its plans to implement this program statewide.

6. AUDITS AND INVESTIGATIONS

The Audits and Investigations Division performs a variety of activities that monitor the expenditure of Medi-Cal dollars. Specifically, the division conducts:

- *Financial audits* of hospitals, long-term care facilities, local agency public health programs, prepaid health plans, and department programs. Audit information may lead to the recoupment of overpayments or be used to determine provider rates in the future.
- *Utilization reviews* of providers and beneficiaries. Staff review medical records and other documentation in order to verify the accuracy of payments made and identify overutilization of services. These reviews may lead to the recoupments of overpayments from providers or may help the department prevent overutilization of health care services by providers and beneficiaries.
- *Investigations* of alleged provider or beneficiary fraud in the Medi-Cal program. Information collected by investigators may help the department recoup overpayments or support criminal prosecution by the Department of Justice.

The division also conducts quality-of-care reviews of prepaid Medi-Cal providers and conducts ongoing quality control reviews of county eligibility determinations.

Audits and Investigations Program Will Save $131 Million in 1985–86. Our analysis indicates that California's audits and investigations program is successful. We base this conclusion on (1) the amount collected as a result of the program and (2) the amount collected relative to administrative costs. In fact, we project that as a result of the division's efforts, the Medi-Cal program will save $131 million ($67 million General Fund) in 1985–86. These savings represent the sum of (1) overpayment recoupments ($104.4 million) and (2) cost avoidance ($48.4 million), minus the costs of administering the program ($21.9 million).

Table 38
Department of Health Services
Audits and Investigations
Savings and Costs
1984–85 and 1985–86
(in millions)

	1984–85		*Est. 1985–86*	
Savings	*General Fund*	*All Funds*	*General Fund*	*All Funds*
1. Recoupments	–$148.3	–$296.6	–$52.2	–$104.4
2. Cost avoidance	–28.5	–57.1	–24.2	–48.4
Total savings	–$176.8	–$353.7	–$76.4	–$152.8
Administrative costs	10.5	22.8	9.8	21.9
Net savings	–$166.3	–$330.9	–$66.6	–$130.9

Note: An explanation of the large change in net savings between 1984–85 and 1985–86 can be found in our discussion of the financial audits function.

DEPARTMENT OF HEALTH SERVICES—Continued

Cost avoidance results when payments are found to be inappropriate before they are made. The division conducts two program activities that result in cost avoidance. It restricts the overutilization of Medi-Cal services by providers and beneficiaries, and it utilizes audit data to adjust certain provider rates to reflect allowable costs.

Table 38 summarizes the savings and costs resulting from these programs in 1984–85 and 1985–86.

Eleven Dollars are Recovered for Every Dollar Spent. Table 39 shows the savings attributable to the audits and investigations program per dollar of administrative costs for the years 1983–84 through 1985–86.

Table 39

Department of Health Services
Audits and Investigations Program
Program Savings Per Administrative Dollar Spent [a]
1983–84 through 1985–86

	1983–84	*1984–85*	*1985–86*
Financial audits	$27.80	$43.80	$18.00
Utilization review	24.40	3.10	3.70
Investigations	0.10	0.10	0.10
Overall average	$15.80	$25.60	$10.80

[a] Excludes Medical Audit, Quality Control, and Central Operations Units.

In 1985–86, the audits and investigations program will yield savings of $10.80 dollars for every dollar of administrative cost. Financial audits generate the highest recoupment-to-cost ratio; investigations yield the lowest.

Documented Recoupments and Cost Avoidance Understate Program Benefits. The savings shown in Table 39 do not tell the whole story. The department cannot identify the cost avoidance resulting from investigations and medical reviews. This is due, in part, to the fact that the program deters fraud and abuse in addition to detecting it.

Financial Audits

The division's financial auditors validate payments made to health care entities by Medi-Cal and other state-funded programs. In the course of their work, they (1) verify cost data reported for rate-setting purposes, (2) determine fiscal settlements, (3) assure compliance with program requirements, and (4) make recommendations to improve program management.

The financial audit program has the highest savings-to-cost ratio in the division. It produces an estimated $18 in savings for every administrative dollar spent. Table 40 shows estimated savings and costs attributable to the financial audits conducted in recent years. We estimate that financial recoupments in 1985–86 will produce at least $99 million ($50 million General Fund) in savings to Medi-Cal and other health programs. Recoupments in 1984–85 were considerably larger—about 65 percent above the current-year level. The decrease is due primarily to two factors (1) hospital contracting, which has reduced the number of hospital audit settlements, and (2) an unusually large recoupment resulting from the annual audit of Los Angeles County health care programs in 1984–85.

We estimate that the state will avoid $47.2 million ($23.6 million General Fund) in costs during 1985–86 as a result of adjustments in rates for long-term care facilities that were suggested by financial audits.

Table 40
Department of Health Services
Financial Audits
Savings and Cost Avoidance
All Funds
1983–84 through 1985–86
(in millions)

Savings	*1983–84*	*1984–85*	*1985–86*
1. Recoupments	–$138.4	–$289.9	–$99.0
2. Cost avoidance	–56.3	–56.3	–47.2
Total savings	–$194.7	–$346.2	–$146.2
Administrative costs	7.0	7.9	8.1
Net savings	–$187.7	–$338.3	–$138.1

Table 41 shows the numbers of audits conducted in different types of facilities from 1982–83 through 1985–86. It indicates that the number of audits in 1985–86 will be 22 percent above the 1982–83 level. During this period, there has been a sharp decline in the number of acute care hospital audits, but this decline has been more than offset by an increase in audits of intermediate care facilities and skilled nursing facilities. The increased emphasis on long-term care facilities is due to legislation that requires expanded audits of nursing homes to ensure that increases in state reimbursements are passed-through to nursing home employees. The department has also increased the number of preventive health and block grant audits in recent years in order to reduce a large backlog carried over from previous years.

Table 41
Department of Health Services
Financial Audits Performed
By Type of Facility or Program Audited
1982–83 through 1985–86

Facility or Program Audited	*Actual 1982–83*	*Actual 1983–84*	*Actual 1984–85*	*Est. 1985–86*
Acute care hospitals	318	506	437	277
Intermediate care facilities	—	72	42	92
Skilled nursing facility	324	170	245	295
Preventive health	62	48	87	197
Totals	704	796	811	861

Major Change in Audit Emphasis Proposed

We withhold recommendation on the budget proposals (1) to eliminate $324,000 ($162,000 General Fund) and 9 auditor positions and (2) to redirect 10 auditor positions, until the department completes pilot audits of contract hospitals.

The budget proposes to eliminate $324,000 ($162,000 General Fund) and 9 positions in recognition of the reduction in the number of acute care hospital audits. The budget also proposes to redirect 10 positions from acute care audits to nursing home audits, in accordance with the requirements of Ch 10/85 and Ch 11/85 (SB 53 and AB 180).

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The department indicates that almost all cost reimbursement audits of acute care facilities for years through 1982–83 will be completed in 1985–86. According to the department, the implementation of the Selective Provider Contracting program in 1983–84 has greatly reduced the amount of time required to collect the information needed for fiscal recoupments and rate development purposes.

Our review indicates that the proposed reduction and redirection of 10 positions to nursing home audits is premature. This is because the department has not completed its pilot audits of contract hospitals to determine how much time is necessary to meet either the data requirements of the department or those of the California Medical Assistance Commission (CMAC). The expected date for completion of the pilot audits is March 1986.

We withhold recommendation on the amount proposed for reduction and redirection, pending completion of the pilot contract hospital audits.

Action Needed on AB 8 Audits

We recommend that the Legislature ask the department to explain during budget hearings why no action had been taken on $1.1 million of "AB 8" audits currently under appeal. We further recommend that the Legislature (1) adopt Budget Bill language requiring the department to take action on 16 completed AB 8 audits that are in suspense and (2) augment the department's budget by $388,000 from the County Health Facility Financing Authority funds and 10 positions to establish an annual audit program.

Background. The budget requests $965 million for the County Health Services Fund in 1986–87. Of this amount, $399 million is for the AB 8/County Health Services program, and the balance of $566 million is for the county Medically Indigent Services (MIS) program.

Assembly Bill 8 (Ch 282/79) created a County Health Services (CHS) program in order to partially replace the property tax revenues lost by counties as a result of Proposition 13 (1978). Subsequently, in 1982, the Legislature enacted legislation eliminating the medically indigent adult (MIA) category from the Medi-Cal program and transferring to the counties responsibility for the health care of individuals in this category. It also established the MIS program to assist counties in providing services to this population.

Current law gives counties substantial flexibility in expending the funds subvened to them under these two programs. Counties may expend AB 8/CHS funds on inpatient, outpatient, and public health services that they provided in 1977–78, as well as on any new county health program. Counties may expend MIS monies on any Medi-Cal reimbursable services that are delivered to individuals who the counties determine are eligible for care under their respective indigent care programs. Current law also provides that unspent or inappropriately spent funds must be returned to the CHS Fund. These funds may be appropriated by the Legislature for special one-time county health projects or deposited into the County Health Facilities Financing Assistance Fund.

Audit History. The department established a five-county pilot project in 1982–83, at a cost of $141,305 to determine the cost-effectiveness of auditing county AB 8/CHS programs for the purpose of confirming that the funds were spent in accordance with law. The audit staff identified a total of $1.4 million in potential recoupments from the five counties. (MIS funds were not subject to audit under the pilot program.) Four of the five counties appealed the department's findings. One appeal, involving $254,000, was decided in the county's favor. If the funds involved in the remaining audit exceptions are recovered, the pilot audits will show an $8-to-1 cost-benefit ratio.

Based on the findings from the pilot, the department in 1983–84 redirected existing audit staff with the aim of completing 27 additional audits. Staff completed 16 audits and began, but later suspended, efforts on an additional 7.

Action on Audit Findings Yet to be Taken. Of the $1.4 million in audit exceptions from 1982–83, the department (1) collected $60,133 from one county and (2) decided an appeal involving $254,000 in another county's favor. It *has taken no action on the remaining $1.1 million.*

Of the 27 county audits covering 1983–84 expenditures initiated by the department, notification of potential recoupments were given to 9 counties, for an additional $900,000 in recoupments. The department has also completed all the necessary paperwork in connection with an additional 7 audits.

In sum, it appears that approximately $2 million should be recouped from the counties and returned to the County Health Facilities Financing Authority. The $2 million would then be available for meeting the counties' capital financing needs, as well as for special one-time health projects, if appropriated by the Legislature.

Our review indicates that an ongoing audit program covering *both* CHS and MIS funds would be prudent and cost-effective. The department indicates that an audit program costing $388,000 would lead to recoupments of over $5 million per year, provided the department takes the necessary action to collect funds identified by the audits as having been inappropriately spent. This estimate only covers CHS expenditures; it does not include potential recoveries from MIS program subventions. In addition, we believe an ongoing audit program would (1) produce more accurate information on health-related expenditures, revenues, and net county costs and (2) ensure that CHS and MIS funds are used only for services authorized by statute.

We recommend that the department explain during budget hearings why no action has been taken on the $1.1 million in audit findings that has been under appeal since 1984. We further recommend that the Legislature adopt Budget Bill language requiring the department to take action on the 16 completed AB 8/CHS audits and augment the department's budget by $388,000 from County Health Facilities Financing Authority funds to support 10 positions for an annual audit program for county AB 8/CHS and MIS funds.

Utilization Review

The department's utilization review programs monitor the appropriateness of Medi-Cal services by using systematic case selection procedures and extensive computer analysis of utilization patterns. Utilization review units are composed of medical and analytical personnel who review medical records and other supporting documentation to assess the appropriateness of (1) payments made to providers and (2) beneficiaries' utilization of services.

The department conducts utilization reviews of physicians, laboratories, pharmacies, and beneficiaries. We estimate that 1985–86 recoupments and

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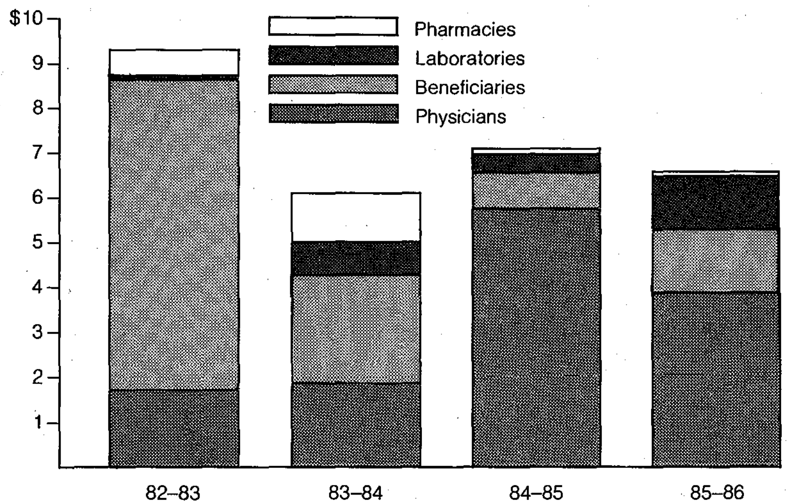
cost avoidance due to utilization reviews will reach $6.3 million. Chart 1 shows utilization recoupments for the years 1982–83 through 1985–86. It shows that the majority of recoupments result from physician and beneficiary utilization reviews.

Chart 5

Savings Due to Utilization Review 1982–83 through 1985–86 (in millions)



Recoupments due to utilization reviews are expected to decline by $750,000 in 1985–86, or 10 percent below 1984–85 levels. This is primarily because appeals from physicians are taking up an increased share of staff time, thereby reducing recoupments from these providers. These declines are partially offset by increased recoupments due to laboratory utilization reviews. Recoupments due to beneficiary reviews are also expected to increase as a result of the recent broadening of Medi-Cal drug benefits. Restoration of whole-grain codeine, in particular, is expected to increase the incidence of beneficiary drug overutilization.

Recoupment-to-Cost Ratios Vary Widely. The department estimates that in 1985–86, savings of at least $3 will result for every dollar spent to administer the utilization review program. Nevertheless, as Table 42 shows, the cost-to-benefit ratios of individual utilization review components vary widely. Laboratory reviews produce the highest savings-to-cost ratio; pharmacy reviews yield the lowest.

Table 42
Department of Health Services
Utilization Review Program
Savings Per Administrative Dollar Spent
1983–84 through 1985–86

	1983–84	*1984–85*	*1985–86*
Physician	$1.20	$3.80	$3.20
Laboratory	10.00	2.50	4.00
Pharmacy	2.20	0.30	0.30
Beneficiary	6.00	2.70	4.00
Overall average	$2.30	$3.10	$3.00

Potential Exists for Increased Effectiveness

We recommend that the department report to the Legislature by April 15, 1986, on the advisability of expanding "special claims reviews" and using "abbreviated utilization review programs."

Special Claims Review. If the department's audit of a provider identifies overutilization of Medi-Cal services, the department can institute a special review and approval procedure for claims filed by that provider in the future. This special claims review program reduces the chances of continued overutilization or inappropriate billing. The number of providers placed on special claims review has increased from 61 in 1982–83 to an estimated 200 in 1985–86.

The department could expand the special claims review procedure to other types of providers that are not subject to these procedures. Currently, the department does not place pharmacy or clinical laboratory providers on special claims review because these providers have very large claims volumes.

It is true that reviewing claims from these providers would require considerable effort unless the special reviews were restricted to a limited number of drug types or lab procedures. The potential benefits from extending special claims review to these providers, however, are considerable. This is because in the case of pharmacies, current post-payment audits are relatively ineffective in identifying recoupments. In the case of clinical laboratories, post-payment audits identify potential recoupments averaging more than $600,000 per audit, but less than 20 percent of these amounts are actually collected because, according to the department, many of the audited firms declare bankruptcy or change ownership near the time of the audit.

We recommend that the department report to the Legislature by April 15, 1986, on the advisability of expanding special claims review for selected clinical laboratory and pharmacy claims.

Abbreviated Utilization Review. The department is evaluating a proposal to initiate an *abbreviated* utilization review program that would identify and allow a provider with a pattern of abuses to be placed on special claims review months earlier than the current audit process allows. Such a program would offer several important benefits: (1) Medi-Cal payments for unnecessary services could be curtailed earlier, (2) payment reviews would be simplified, (3) a larger sample of providers could be reviewed, and (4) cost-effectiveness could be improved.

Abbreviated claims review promises to be an important adjunct to special claims review in helping to reduce abuse of the Medi-Cal program. We also recommend that the department report on the potential for establishing abbreviated audits wherever special claims review can be used to prevent inappropriate payments.

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More Effective Case Identification Method Needed

We recommend that by April 15, 1986, the department present to the Legislature a plan to more effectively identify pharmacy cases for auditing.

The pharmacy utilization review program is the least cost-effective utilization review activity. The program achieves savings of only 30 cents for every dollar spent to administer it.

Since 1982–83, the department has reduced the amount of staff devoted to this activity, from 12 pharmacists to 6 in the current year. The department also is undertaking a program to streamline the audit process and revise the pharmacy manual, in an effort to increase the number and accuracy of the reviews.

These improvements are commendable. Nevertheless, we find that the method used by the department to choose pharmacy cases for audit limits the unit's effectiveness. According to the department, at least one-half of all pharmacy audits result in no recoupments. This is due, in large measure, to problems with computer programs used to identify cases for auditing. The selection criteria relied on by these programs repeatedly identify high-volume providers, rather than those with suspicious billing patterns. The department has indicated that improvements in this system could improve the productivity of pharmacy audits.

We recommend that by April 15, 1986, the department present to the Legislature a plan for improving the system used to select pharmacies for audit.

Pharmacy Reduction Not Justified

We withhold recommendation on a proposed reduction of $57,000 ($15,000 General Fund) and one pharmacist position pending receipt of the department's report on methods of increasing the effectiveness of the pharmacy review program and the program changes.

The budget proposes a reduction of $57,000 ($15,000 General Fund) and elimination of one supervisory pharmacist position located in southern California. This position is one of two pharmaceutical consultant II positions that currently share the statewide supervisory responsibility for the pharmacy audit program.

While the current pharmacy review program is not cost-effective, the pharmacy manual revisions, streamlined audit process, the potential adoption of the abbreviated review process, and recommended changes in the audit selection process may result in substantially greater returns to the state.

Since supervising pharmacists participate heavily in ongoing workload, this reduction will further reduce pharmacy audit production. We believe it is premature to approve this reduction before examining the cost-effectiveness of changes in the pharmacy audit program. Therefore, we withhold recommendation on the position reduction pending further evaluation of these proposed changes.

Beneficiary Utilization Review Computer Needed

We recommend an augmentation of $15,000 ($7,500 General Fund) to finance the purchase of a computer for the Beneficiary Utilization Review Unit.

The Beneficiary Utilization Review (BUR) Unit monitors the utilization of Medi-Cal services by beneficiaries. If this unit detects overutilization of Medi-Cal services, it may restrict a beneficiary's drugs, office visits, or both for up to two years. If abuse continues, the department may also limit a beneficiary to one particular provider for all Medi-Cal services. The BUR Unit is expected to avoid payments of approximately $1.2 million in 1985–86 by reducing inappropriate utilization of services by beneficiaries.

Table 43 outlines the unit's activities from 1982–83 to 1985–86. The dramatic reduction in the number of drug restrictions is attributable to the changes in the Medi-Cal drug formulary and eligibility made during 1982–83.

Table 43
Department of Health Services
Beneficiary Utilization Review
Beneficiary Restrictions Initiated
1982–83 to 1985–86

	Drug Restrictions	*Office Visit Restriction*	*Combined Drug/Office Visit Restriction*	*Beneficiaries Limited To a Specific Provider*
1982–83	1,038	2,031	466	—
1983–84	52	749	166	46
1984–85	26	161	99	32
1985–86 (est.)	130	130	210	10

The Beneficiary Overutilization Detection System (BODS), which is maintained by the department's Data Systems Branch, allows the BUR Unit to match all previously reviewed beneficiaries to determine (1) whether the beneficiary currently is on restricted status, (2) the type of current restriction, and (3) any previous restrictions. This system, however, has numerous deficiencies that limit the effectiveness of the BUR Unit.

A department data processing report indicates that it would cost $27,000 to modify the system in order to meet the unit's needs. The same report indicates that the purchase of a personal computer to replace the BODS system, at an estimated cost of $15,000, would allow more timely file updates, the development of better models for identification of beneficiary overutilization, the elimination of a duplicative card file system, and an annual reduction of $15,000 in long-term operating costs.

Our review confirms that the current BODS is outdated and that the use of a computer will increase the efficiency of staff, improve cost avoidance, and result in long-term savings to the state. Consequently, we recommend an augmentation of $15,000 ($7,500 General Fund) to provide the BUR Unit with a computer.

Investigations

The division's investigative units are responsible for investigating alleged provider and beneficiary fraud in connection with department programs. The investigators, who have peace officer status, investigate complaints regarding possible crimes or intentional violation of a statute or regulation. After a preliminary investigation, most cases of *provider* fraud are referred to the Department of Justice. The department retains jurisdiction over *beneficiary* fraud cases.

The department estimates that actual recoupments attributable to this

DEPARTMENT OF HEALTH SERVICES—Continued

component of the program will be approximately $300,000 ($150,000 General Fund) in 1985–86. This is $100,000, or 25 percent, less than the 1984–85 amount. In terms of recoupments alone, the investigations program is the least cost-effective of the division's review programs, producing 14 cents for each dollar spent on investigations.

Table 44 lists the division's major investigation activities from 1983–84 to 1985–86. Staffing levels have remained constant at 80 positions during this period.

Table 44
Department of Health Services
Audits and Investigations Division
Investigations Conducted
1983–84 through 1985–86

	1983–84	*1984–85*	*1985–86 (Est.)*
Provider	239	164	209
Beneficiary	1,284	1,449	1,484
Referrals to the Department of Justice	139	433	900
Toxics investigations	—	249	93

The number of beneficiary and provider Medi-Cal investigations has remained fairly constant since 1983–84. Nevertheless, the number of provider fraud cases referred to the Department of Justice is expected to increase dramatically in 1985–86, due to an improved referral system.

Toxics Investigations Terminated

We recommend that during budget hearings, the Legislature ask the department to explain why it terminated toxics criminal investigation efforts in the Audits and Investigations Division.

The 1985 Budget Act redirected eight investigators from the Medi-Cal program to the investigation of illegal dumping, illegal groundwater pumping, and other cases involving toxic substances. The department indicated that the toxics program needed investigators who were trained to prepare cases that would stand up in court.

On September 30, 1985, however, toxics investigations were terminated, and the eight investigators were returned to the Medi-Cal program.

We have been unable to obtain from the department an explanation of why it terminated the criminal toxic investigations. As far as we can determine, the need for toxic investigations is just as great today as it was in October 1984 when the positions initially were diverted.

Consequently, we recommend that during budget hearings, the Legislature ask the department to:

1. Explain why it terminated the division's toxics criminal investigations program.
2. Describe what toxics criminal investigations are currently being conducted by the department.
3. Summarize what the department plans to do with the eight investigator positions.

Decentralization of Case Screening Saves Staff Time

We recommend approval of the proposed reduction of two investigative positions.

The budget proposes a reduction of $80,000 ($40,000 General Fund) and two positions to reflect the decentralization of the investigations screening function. Currently, a central unit located in Sacramento performs intake, screening, and tracking of incoming complaints involving Medi-Cal fraud and abuse. The department proposes to transfer this function to the field. Our review indicates that decentralization will not reduce the department's ability to respond to complaints. Therefore, we recommend that the proposed staffing reductions be approved.

The budget also proposes to convert three investigator positions to limited-term positions for possible elimination in 1987–88 because it expects that the revised case screening criteria will reduce workload in 1987–88. The department indicates that it will examine the workload impact of (1) the new investigations screening criteria and (2) new statutes requiring beneficiaries to sign their Medi-Cal card during 1986–87.

We recommend approval of the three limited-term positions and will examine the necessity for these positions when the department's workload study is completed.

Computer Checks of Assets Feasible

We recommend that the department report to the Legislature by April 15, 1986, on the feasibility of utilizing the asset clearance match program for the medically needy category of Medi-Cal beneficiaries.

Chapter 703, Statutes of 1981 (SB 620), authorized a four-county demonstration project in which county welfare and Franchise Tax Board (FTB) records were matched to determine if any welfare recipients earned more than $30 in interest or dividends in any year. Because both the Aid to Families with Dependent Children (AFDC) and Medi-Cal programs include eligibility rules that limit the assets a family may retain and still qualify for assistance, this project provides a means for reducing program costs by identifying recipients with assets that may exceed the limit. Matches are referred to county investigative staff in the AFDC program and state investigators in the Medi-Cal program.

The demonstration program was successful in identifying fraud and reducing welfare expenditures. As a result, the program was implemented statewide in 1984. The Department of Social Services estimates that this program will reduce state AFDC expenditures by $8.6 million ($4.3 million General Fund) in 1986–87.

The matching program covers only those beneficiaries who are categorically eligible under *both* the AFDC and Medi-Cal programs. The Medically Needy program, however, has similar family asset limits. The state may be able to realize savings and reduce beneficiary fraud if the asset clearance match program is extended to the medically needy eligibility category.

Consequently, we recommend that the department report by April 15, 1986, on the feasibility of extending the asset clearance match program to medically needy eligibles.

DEPARTMENT OF HEALTH SERVICES—Continued

General Issues

Regional Reorganization Questionable

We recommend that the department report to the Legislature during budget hearings on its reasons for combining the management of two regional offices in southern California.

The budget proposes a reduction of $243,000 ($103,000 General Fund) and six positions made possible by the proposed consolidation of management for two southern California regional offices. Under the proposal, each office would retain its separate identity.

The department states that the position reductions will not only reduce expenses but will "streamline" reporting relationships in southern California regions.

We have the following concerns regarding this proposal:

- Section supervisors would be responsible for approximately 45 staff.
- Management personnel would be less available for on-site management of state operations because they would spend more time traveling between locations.

In sum, we are concerned that supervisory resources will be stretched too thinly. Consequently, we recommend that the department report during budget hearings on its reasons for combining the management of two southern California regional offices.

Contracting Proposal Lacks Adequate Justification

We recommend that the Legislature reject a proposal to reduce $44,000 and two positions and redirect funds to contractual services because the department's proposal lacks adequate justification.

The budget proposes elimination of one physician and one nurse position, a reduction of $44,000 in federal funds, and a redirection of $75,000 ($37,500 General Fund) to consultant and professional services, in order to fund a one-year pilot project.

The pilot will test the effectiveness of contracting for physician services to conduct utilization reviews. The department indicates that practicing physicians on contract may accomplish reviews in less time, provide expertise in medical fields that cannot be provided by state physicians, and will be more credible during appeals. The pilot also includes contract funds for medical duplicating services. Currently, departmental medical staff spend time duplicating beneficiary medical records for medical utilization reviews. The department believes contracting for these services may be more cost-efficient.

Our review indicates that the utilization review program has two underlying problems that the proposal attempts to resolve. First, the program from time to time needs contract funds to hire expert physicians to advise state physicians who are conducting utilization reviews and to testify at appeal hearings to support the state's cases. These services are complementary to and cannot substitute for the routine utilization review activities performed by state physicians. Eliminating a physician position will produce funds for consulting services but it may also reduce the overall number of utilization reviews accomplished. Second, the program needs clerical personnel to duplicate the medical records required during the course of medical reviews. Our review indicates that state clerical staff could accomplish the duplicating at a cost well below the amount budgeted in the proposed contract. Furthermore, the contract will not provide the same level of services that would be lost by the elimination of one state nurse position.

Because the department's proposal lacks adequate justification, we recommend rejection of the staff reduction and the redirection of funds to contractual services.

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY

Item 4260-301 from the Special Account for Capital Outlay and the Federal Trust Fund — Budget p. HW 78

Requested 1986–87	$1,384,000
Recommended approval	313,000
Recommended reduction	165,000
Recommendation pending	906,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Emergency Generator. Reduce Item 4260-310-036(2) by $10,000.*** Recommend that the Legislature delete funds in excess of cost estimate. — 778
2. ***Los Angeles Lab Acquisition. Reduce Item 4260-301-036(3) by $10,000.*** Recommend that the Legislature delete funds for EIR and appraisal, because these funds are not needed to exercise an option to purchase leased facilities. — 778
3. Berkeley Lab Remodel and Expansion. Withhold recommendation on Item 4260-301-890(1), pending receipt of additional information. — 779
4. Minor Projects. Recommend that all funds for parking lot improvements under Item 4260-310-036(1) be designated as a loan to the DHS and repaid through user fees. — 781
5. ***Minor Projects. Reduce Item 4260-301-036(1) by $145,000.*** Recommend that the Legislature delete funds for one project that is not justified. — 781

ANALYSIS AND RECOMMENDATIONS

The budget proposes $478,000 from the General Fund, Special Account for Capital Outlay, and $906,000 from the Federal Trust Fund for three major projects and four minor projects for the Department of Health Services (DHS).

The Federal Trust Fund amount would come from receipts *anticipated,* but not yet received, under Section 8(g) of the federal Outer Continental Shelf Lands Act. The Budget Bill appropriates a total of $45.2 million in "8(g)" revenue, which would be on top of the $356.3 million already appropriated. It is not clear at this time that the state will receive sufficient funds to finance either the amount already appropriated or the amount included in the Budget Bill.

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY—Continued

Table 1
Department of Health Services
1986–87 Major Capital Outlay
(dollars in thousands)

Project	*Phase*[a]	*Budget Bill Amount*	*Analyst's Recom- mendations*	*Estimated Future Cost*
Emergency Generator	pwc	$246	236	—
Los Angeles Lab	EIR and Appraisal	10	—	$1,300
Berkeley Lab Remodel	EIR and Schematics	906	Pending	60,000[b]
Total		$1,162	Pending	$61,300

[a] Phase symbols indicate: p=preliminary plans; w=working drawings; c=construction; EIR=environmental impact report.
[b] Department estimate is $57 million to $60 million.

Emergency Generator

We recommend that the Legislature reduce Item 4260-301-036(2), emergency generator, by $10,000 to reflect the current cost estimate by the Office of State Architect.

The Berkeley laboratory has two natural gas-powered emergency generators with a total capacity of 250 KW. The department proposes to install one 500 KW diesel-powered generator for emergency electrical power because these generators do not meet the baseline electrical needs of the facility. This project is a resubmittal of a minor capital outlay project funded for $149,000 in the 1984 Budget Act. The department did not purchase the generator at that time because the cost was higher than the department anticipated.

The Budget Bill provides $246,000 for the generator. The Office of State Architect's cost estimate indicates a cost of $236,000 for the generator.

While our analysis indicates that the generator is needed, we have been unable to establish any need for the additional $10,000. Consequently, we recommend that the Legislature delete the $10,000 from this item so that the budgeted funds will equal the estimated project cost.

Los Angeles Lab Acquisition

We recommend that the Legislature delete Item 4260-301-036(3), for an EIR and appraisal of the Los Angeles laboratory facilities, because these funds are not needed to exercise the option to purchase this leased facility, for a reduction of $10,000.

The DHS southern California laboratory facility was constructed to state specifications in 1967 and is occupied under a lease-with-option-to-purchase agreement. The 20-year term of the lease will expire two and one-half years from now—on June 30, 1988. On that date, after giving 90 days notice to the owner, the state can purchase this 25,000 square foot facility and associated property for the contractural amount of $1.3 million.

The Department of General Services estimates that the property is worth $1.97 million to $2.25 million. The DHS indicates that the laboratory meets the program's needs, even though some modifications should be made to provide additional storage and improve the ventilation. The budget requests $10,000 to fund an EIR and an appraisal of this property.

Our analysis indicates that purchasing this laboratory would be cost-beneficial to the state. Nevertheless, there is no need to appropriate funds for the appraisal and the EIR. The value estimate is well above the option price and EIRs are not required for a simple change of ownership. Furthermore, no funds for any pre-acquisition activities are needed until the 1987–88 fiscal year. Consequently, we recommend that the Legislature delete this item. We further recommend that during the 1986–87 fiscal year, the department prepare a report identifying the need for and cost of any necessary modifications to the Los Angeles lab facility.

Berkeley Lab Remodel and Expansion

We withhold recommendation on Item 4260-301-890 (1), schematic drawings and EIR for the Berkeley lab remodel and expansion, pending receipt of additional information.

The main operations of the DHS laboratories are located on Berkeley Way in a 196,000 square foot (sf) facility built in 1953 (160,000 sf) and 1966 (36,000 sf). The DHS also has smaller facilities on Acton Street in Berkeley and in Emeryville. These three laboratories support the Public Health and Environmental Health programs of the DHS.

The Budget Bill includes $906,000 for preparation of schematic drawings and an environmental impact report (EIR) for a major remodeling and expansion of the Berkeley Way lab. Under the plan, the Acton Street and Emeryville facilities would be closed and the functions consolidated at Berkeley Way. The estimated total project cost ranges from $58,229,000 to $60,788,000.

Background. The history of this project dates to October 1980, when the Department of General Services issued a 10-year facilities plan for the DHS laboratory system. This plan identified laboratory space deficiencies and proposed several alternatives. The 1985 Budget Act provided $50,000 to the DHS to study the alternatives proposed by the Department of General Services in the 1980 facilities plan. The Legislature directed the DHS, in conducting this study, to consider the programmatic and physical plant changes which had occurred since 1980 and the effect of the Governor's proposal to consolidate toxics programs.

The Berkeley laboratory study, which was released in December 1985, outlines three renovation and expansion alternatives. Each alternative adds approximately 100,000 square feet of office and laboratory space to the facility, and costs approximately $60 million.

Summary. Our review indicates that the study:

- fails to reevaluate the alternatives recommended in the 1980 Health Services laboratories facilities plan.
- bases its recommendation on projected laboratories needs from 1985–1995.
- finds that the Governor's proposal to consolidate the toxics program into a single department will have *no* effect on the laboratory other than to alter the laboratory's funding level.
- finds that most of the approximately $1.4 million in special repair and capital outlay funds appropriated for the Berkeley facilities between 1980 and 1985 was used for required maintenance and that little of the work can be incorporated into the building's expansion and remodeling.

We find that several major issues warrant review before the Legislature approves this project.

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY—Continued

Staffing Levels. The DHS expects the number of staff working in the consolidated Berkeley Way facility to increase by 38 percent in the next 10 years. Specifically, the DHS staffing projections show an increase of 35.4 personnel-years from 1985–86 to 1986–87 and 149.1 personnel-years between 1986–87 to 1995–96. The proposed expansion plan is based on these projections.

Our analysis indicates, however, that the DHS's staffing projections generally have been high. For example, the department's 10-year plan of 1980 envisioned a real growth in staff for the subject facilities of approximately 6 percent per year. Actual staff growth has been approximately 3 percent per year. In addition, the department estimated a 10 percent per year increase in staff for the southern California lab between 1980 and 1990. As of 1985, that lab had experienced a net *decrease* in staff. Based on the proposed 1986–87 budget for DHS and in view of past experience, our analysis indicates that the current staffing projections are also high. In turn, these projections inflate the amount of space the DHS needs to remodel and/or construct in the proposed addition.

Space Allocation. The department has requested an amount of space for the Berkeley lab expansion that is more than double what it requested just three years ago. In 1983, the DHS estimated that 61,000 additional gross square feet (gsf) were needed. In 1985, the DHS revised the estimate to 115,000 gsf. The current plan provides for constructing a 102,021 gsf addition to the Berkeley lab *and* renting an additional 31,000 gsf, for a total of 133,021 gsf of additional space.

Based on the State Administrative Manual (SAM) guidelines and the consultant's recommendation of 144 net square feet of lab per scientist, our review of the proposed plan indicates that it overstates need by at least 28,000 gsf. The extra space generally is due to the fact that the plan provides larger labs than the consultant indicates is necessary and does not comply with all SAM guidelines.

Moreover, the proposed design may be overstated by even more than 28,000 square feet if:

- the consultant's recommended lab size is larger than necessary,
- the 38 percent staffing increase is not realized, or
- some of the lab's toxics programs are consolidated in a new toxics department.

Cost items not included in the $60 million estimate. The cost of this project has escalated by a factor of six in just two years. Moreover, the full cost of the project is still uncertain. The current $60 million estimate is not based on actual lab conditions, but simply on the number of square feet proposed and the consultant's estimate of the average national cost of building or renovating lab and office space. The DHS has provided no data to substantiate these estimates. Furthermore, this estimate *excludes* many proposed items. For example, the DHS proposes to rent additional "swing" space during the years of remodeling, at a total cost of $3 million. The DHS also proposes to relocate several nonlab divisions currently housed in the Berkeley facility to rented quarters, at an annual cost of $62,000.

Summary. The DHS's Acton Street and Emeryville facilities clearly are substandard. Consequently, the proposal to consolidate the DHS activities into the Berkeley Way lab is merited. To accommodate this consolidation, remodeling and additional space must be provided. As discussed above, however, the DHS has not substantiated the estimated $60 million project cost.

We have spent considerable time reviewing this proposal since the DHS issued the report in December. This review has been facilitated by the DHS which has been very cooperative and has provided prompt and thorough responses to our questions. Nevertheless, because of the time constraints, we have not completed our review and analysis of this multimillion dollar project. Consequently, we withhold recommendation on this project, pending further analysis.

Minor Projects

We recommend that the Legislature provide funds for parking lot improvements in the form of a loan to be repaid through user fees.

We recommend further that the Legislature reduce Item 4260-301-036 (1), by $145,000 to eliminate funding for sunscreens on windows at the Berkeley Way building because (1) sections of the building may be removed during construction and (2) the screens are not justified on a cost/benefit basis.

The department proposes four minor projects ($200,000 or less per project) for a total cost of $222,000. These projects and our recommendations on each are summarized in Table 2.

Table 2
Department of Health Services
1986–87 Minor Capital Outlay
(dollars in thousands)

Project	*Budget Bill Amount*	*Analyst's Recommendation*
Chilled Water Cooler	18	18
Asbestos Removal	31	31
Install Security Fence	28	28 (as a loan)
Solar Shielding	145	—
Totals	222	77

We have concerns with two of the four projects.

Los Angeles Parking Lot Security Improvements. The Budget Bill provides $28,000 for construction of an eight foot fence with three strands of barbed wire and electric card controlled access gates around the employee parking lot. The department indicates that numerous employee vehicles parked in the lot have been stolen or vandalized in the past five years. In the October 1985 collective bargaining agreement between the DHS and the California Association of Professional Scientists, the parties agreed that the DHS will request funding for security improvements to the lot and that some recoupment of these costs through parking fees may be discussed after January 1, 1987.

Our analysis indicates that parking security is a problem at the Los Angeles laboratory, but that the cost of improving security should be charged to parking lot users. Consequently, we recommend that the Legislature appropriate the $28,000 as a 20-year loan, to be repaid with interest from a surcharge levied on the parking lot users. To implement this recommendation, it should adopt the following budget language:

"Provided that any funds appropriated under Item 4260-301-036 (1) that are used to finance parking lot improvements are a loan to the Depart-

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY—Continued

ment of Health Services. Payments on the loan shall be on an annual basis over a 20-year period with interest at the current rate earned on money deposited in the Pooled Money Investment Account. Funds for these payments shall be raised by assessing a parking lot user charge."

Window Sunscreens. The budget provides $145,000 to install sunscreens on all west and south facing windows in the Berkeley laboratory facility. According to the DHS, the laboratory becomes quite warm on sunny days and the department *hopes* that the temperature will be reduced by shading the windows. Our analysis indicates that this project is not justified because (1) some of these sunscreens may need to be removed if the building is expanded, (2) information provided by the DHS indicates that the payback on sunscreens covering windows in *air conditioned* rooms is over 18 years and (3) the manufacturer is unable to estimate how many degrees cooler the screens will make *nonairconditioned* rooms. Consequently, we recommend that the Legislature delete $145,000 from Item 4260-301-036 (1).

DEPARTMENT OF HEALTH SERVICES—REVERSION

Item 4260-495 to the General Fund — Budget p. HW 65

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the following seven reversions pending receipt of additional information from the department.

The budget proposes to revert the unencumbered balances remaining from seven appropriations to the Department of Health Services. The funds would revert to the unappropriated surplus of the General Fund. The seven appropriations are described below:

1. Chapter 1134, Statutes of 1979, appropriated $2,100,000 for a dental disease prevention program for children. As of November 27, 1985, a balance of $700,000 remained unexpended.
2. Chapter 1163, Statutes of 1979, appropriated $130,000 for a pilot program to determine whether providing Medi-Cal per-capita reimbursements to pharmacists for services provided to nursing homes would reduce costs to the state. As of November 27, 1985, a balance of $27,745 remained unexpended.
3. Chapter 277, Statutes of 1980, appropriated $225,000 for a project to revise and consolidate public health services statutes. As of November 27, 1985, a balance of $9,740 remained unexpended.
4. Chapter 204, Statutes of 1982, appropriated $875,000 to establish a birth defects monitoring program ($450,000) and to conduct studies on the effect of (a) malathion on pregnant women ($275,000) and (b) ethylenedibromide (EDB) on reproductive systems ($150,000). As of November 27, 1985, a balance of $47,858 remained unexpended.
5. Chapter 1572, Statutes of 1984, provided $135,000 for the establishment of toll-free phone numbers for providers wishing to contact Medi-Cal field offices. As of November 27, 1985, a balance of $27,527 remained unexpended.

6. Chapter 10, Statutes of 1985, appropriated $150,000 for a study of the long-term care rate-setting methodology. The department proposes to revert these funds.

7. Chapter 1394, Statutes of 1985, appropriated $500,000 to establish an occupational health and disease prevention program. The department proposes to revert $236,000. The budget also proposes to continue this program through a separate budget change proposal.

We will make recommendations to the Legislature on the proposed reversions after we have received additional information from the department.

Health and Welfare Agency

CALIFORNIA MEDICAL ASSISTANCE COMMISSION

Item 4270 from the General Fund — Budget p. HW 79

Requested 1986–87	$994,000
Estimated 1985–86	952,000
Actual 1984–85	617,000
Requested increase $42,000 (+4.4 percent)	
Total recommended reduction	21,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4270-001-001—Support	General	$994,000
Reimbursements	Federal	(852,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Technical Budget Issues. Reduce Item 4270-001-001 by $21,000.*** Reduce reimbursements by $20,000. Recommend reduction to eliminate overbudgeting in operating expenses. 785

GENERAL PROGRAM STATEMENT

The California Medical Assistance Commission (CMAC) was established by Ch 329/82 (AB 3480) to negotiate contracts with hospitals, county health systems, and health care plans for the delivery of health care services to Medi-Cal recipients. In addition, the commission is responsible for reporting to the Legislature twice each year on the status and cost-effectiveness of selective provider contracts.

During 1985–86, a total of 25.5 positions, including 7 commissioners, are authorized for the commission.

CALIFORNIA MEDICAL ASSISTANCE COMMISSION—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $994,000 from the General Fund for the support of the commission during 1986–87. This is an increase of $42,000, or 4.4 percent, above estimated current-year General Fund expenditures. This increase primarily reflects (1) an increase of one position for implementation of the Expanded Choice program and (2) salary increases.

Total expenditures by the commission, including the expenditure of federal funds provided by the Department of Health Services, are proposed at $1,846,000 in 1986–87—an increase of $85,000, or 4.8 percent, above estimated expenditures in the current year. This increase also is due primarily to the proposed new position and salary increases.

The budget does not include additional funding for merit salary adjustments or inflation adjustments to operating expenses and equipment.

Table 1 shows personnel-years, expenditures, and funding sources for the commission from 1984–85 through 1986–87.

Table 1
California Medical Assistance Commission
Budget Summary
1984–85 through 1986–87
(dollars in thousands)

	Expenditures			
Program	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
Contract negotiations	$1,303	$1,761	$1,846	4.8%
Reimbursements (federal funds)	686	809	852	5.3
Net totals	$617	$952	$994	4.4%
Personnel-years	21.9	25.5	26.4	3.5

ANALYSIS AND RECOMMENDATIONS

Hospital Contracts Implemented

As of January 1986, 274 acute care hospital contracts had been signed in 71 of the state's 138 health facilities planning areas. Approximately 92 percent of Medi-Cal inpatient expenditures occur in these areas. Table 2 summarizes the status of hospital contracting.

Table 2
Contracts with Acute Care Hospitals
January 1986

1. Coverage	
a. Number of health facilities planning areas	138
b. Areas for which contracts have been negotiated ("closed" areas)	71
c. Areas in which contracting has not been completed	67
2. Hospital participation	
a. Number of hospitals in closed health facilities planning areas	440
b. Number of nonacute care hospitals not eligible for contracts	48
c. Net number eligible for contracts	392
d. Number of current contracts	274
3. Estimated number of contract renegotiations in 1986–87	325

The current contracts do not have expiration dates but may be renegotiated at the request of either the commission or the hospital. The commission advises that most of the current contracts probably will be renegotiated at least once during the budget year. In some cases, contracts are renegotiated more than once in a year. The fiscal effects of these contracts are discussed in our analysis of the California Medical Assistance program (Medi-Cal).

Budget Increases Due to Expanded Choice Program

We recommend approval.

The budget requests $34,698 ($17,000 General Fund) and one position for anticipated workload increases associated with the planned 1986–87 implementation of the Expanded Choice program in San Diego County. The commission indicates that the additional position is needed to establish ongoing advisory committees of beneficiaries and providers and to conduct additional liaison activities. Our review indicates that the additional resources are justified.

Technical Budget Issues

We recommend reductions totaling $21,000 from the General Fund and $20,000 in reimbursements to eliminate overbudgeting in facilities operations, consulting services, and out-of-state travel.

The proposed budget includes $112,000 for facilities operations, which is $15,000 above the amount we estimate will be required in 1986–87. The budget also proposes $16,000 for external consulting services, although the commission has provided no expenditure plan for these funds. Finally, the request for out-of-state travel exceeds by $10,000 the amount that is warranted by actual expenditures in recent years.

Accordingly, we recommend that these funds be deleted from the budget for a savings of $21,000 to the General Fund and a $20,000 reduction in reimbursements.

Health and Welfare Agency

DEPARTMENT OF DEVELOPMENTAL SERVICES

Item 4300 from the General Fund and Developmental Disabilities Program Development Fund — Budget p. HW 80

Requested 1986–87	$858,977,000
Estimated 1985–86	876,247,000
Actual 1984–85	792,939,000
Requested decrease $17,270,000 (−2 percent)	
Total recommended reduction	2,943,000
Recommendation pending	8,817,000

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4300-001-001—Support	General	$19,229,000
4300-001-172—Support	Developmental Disabilities Program Development	217,000
4300-101-001—Local assistance	General	366,108,000
4300-111-001—Local assistance	General	50,008,000
4300-121-001—Local assistance	General	7,721,000
4300-111-036—Local assistance	SAFCO	12,673,000
4300-101-172—Local assistance	Developmental Disabilities Program Development	0
4300-121-172—Local assistance	Developmental Disabilities Program Development	4,971,000
Subtotal		$460,927,000
4300-101-890—Support	Federal	(88,000)
4300-111-890—Local assistance	Federal	(944,000)
Reimbursements		398,050,000
Total		$858,977,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Residential Care Rate Pilot. Recommend that when the department submits its April 1, 1986, revised residential care rate proposal, it (1) identify the total cost of implementing the program statewide and (2) address other costs and policy issues. 792
2. ***Board and Care Cost-of-Living Adjustment. Reduce Item 4300-101-001 by $2,332,000.*** Recommend reduction to eliminate double-budgeting of the cost-of-living adjustment for board and care facilities. 797
3. ***Regional Center Core Staffing. Reduce Item 4300-101-001 by $611,000.*** Recommend reduction because some regional center core staffing salary increases were in excess of 6 percent provided to other staff. 798
4. Hospital Population Estimates. Withhold recommendation on the proposal to eliminate 308 treatment positions, pending receipt of updated hospital population estimates. Recommend that the department prepare and submit a revised estimate of 1986–87 hospital populations and staffing requirements. 806
5. State Hospital Nontreatment Positions Reduced. Recommend that the department inform the Legislature during budget hearings what its policy is toward staffing imbalances in the state hospitals. Further recommend that prior to budget hearings, the department provide a management plan which explains how the workload of the 11 administration positions proposed for elimination can be absorbed. 808
6. Special Repairs. Withhold recommendation on $7,908,000 requested from the Special Account for Capital Outlay for state hospital special repair projects, pending 812

further review of the projects and further discussion of state hospital special repair needs.

7. ***Laundry Contract. Augment Item 4300-111-001 by $41,000.*** Recommend that the Legislature restore $41,000 and 57 laundry worker positions at Agnews and Fairview State Hospitals because the proposal to contract for laundry services is premature. Further recommend that the Legislature adopt Budget Bill language identical to language in the 1985 Budget Act limiting the price that Prison Industries Authority may charge for laundry services. 812
8. Equipment Proposal. Withhold recommendation on $4,831,000 requested for hospital equipment, pending receipt of a mandated report on state hospital equipment. 814
9. Hospital Equipment Expenditures. Recommend that the Legislature adopt Budget Bill language restricting the expenditure flexibility of the state hospitals. 814
10. Report on Future Use of State Hospitals. Recommend that the department advise the Legislature why its report on the long-term plan for state hospitals is late, and when the report will be released. 815

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 13,413.3 personnel-years in the current year 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 acitivities 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.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $443,066,000 from the General Fund to support the programs of the Department of Developmental Services in 1986–87. This is a decrease of $299,926,000, or 40 percent, below estimated current-year expenditures.

The reduction in expenditures does *not* reflect a corresponding reduction in services provided by the department. Rather, it reflects a change in accounting policy that is necessary in order to conform with generally accepted accounting principles. Specifically, the budget proposes to treat Medi-Cal funding for the support of state hospital operations as *reimbursements* rather than General Fund revenues. This change has the effect of reducing expenditures in the budget; it will not have any effect on the operation of the state hospitals.

Expenditures from all funding sources are proposed at $860,009,000 in the budget year. This is an increase of $17,235,000, or 2 percent, above estimated current-year expenditures.

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

Table 1
Department of Developmental Services
Budget Summary
1984–85 through 1986–87
(dollars in thousands)

Expenditures	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
Department administration	$17,802	$19,728	$20,614	4.5%
Community services	276,891	328,938	379,825	15.5
State hospital services	499,049	528,558	459,570	−13.1
Totals	$793,742	$877,224	$860,009	−2.0%
Funding source				
General Fund	$672,084	$742,992	$443,066	−40.4% [a]
SAFCO	—	2,807	12,673	351.5
Developmental Disabilities Program Development Fund	3,260	2,834	5,188	83.1
Federal funds	803	977	1,032	5.6
Reimbursements	117,595	127,614	398,050	211.9 [a]
Personnel-years				
Department support	369	405.4	396.3	−2.2%
State hospital services	13,010.6	13,077.9	10,155.8	−22.3 [b]
	13,379.6	13,483.3	10,552.1	−21.7%

[a] This decrease reflects the proposed transfer of administration of Napa State Hospital from the Department of Developmental Services to the Department of Mental Health.

[b] The increase in reimbursements and the decrease in General Fund are due to an accounting procedure.

The budget proposal does not include funds for merit salary adjustments or inflation adjustments to operating expenses and equipment. We estimate that the department will have to absorb approximately $3,460,000 in such costs. This issue of absorbing merit salary adjustments and its impact on the operation of state hospitals is discussed further on page 809 of this analysis.

ANALYSIS AND RECOMMENDATIONS

I. DEPARTMENT SUPPORT

We recommend approval.

The budget proposes a General Fund appropriation of $19,229,000 for support of the department in 1986–87. This is an increase of $868,000, or 4.7 percent, above estimated current-year expenditures. Total expenditures, including those supported by the Program Development Fund, reimbursements, and federal funds, are proposed at $20,614,000, which is $886,000, or 4.5 percent, above estimated current-year expenditures.

Table 2 identifies the major changes in the department's support budget proposed for 1985–86.

Table 2

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

	General Fund	*All Funds*
1985–86 expenditures (Budget Act)	$17,447	$18,864
Adjustments, 1985–86:		
1. 1985–86 salary and benefit increases	853	907
2. Other adjustments	61	−43
1985–86 expenditures (revised)	$18,361	$19,728
Baseline adjustments, 1986–87:		
1. Salary and benefits adjustments	$824	$882
2. Merit salary adjustments	—	—
3. Inflation adjustments for operating expenses and equipment	—	—
4. Other adjustments	−16	−56
Program change proposals:		
1. Napa administration positions	−77	−77
2. Community Services Division positions	137	137
1986–87 expenditures (proposed)	$19,229	$20,614
Change from 1985–86 (revised):		
Amount	$868	$886
Percent	4.7%	4.5%

The budget proposes a total of 396.3 personnel-years for department headquarters in 1986–87. This is a decrease of 9.1 personnel-years below the number authorized in the current year.

II. REGIONAL CENTERS AND COMMUNITY DEVELOPMENT PROGRAMS

The budget proposes an appropriation of $379,825,000 for regional centers and community development programs in 1986–87, including $373,829,000 from the General Fund and $4,971,000 from the Program Development Fund. This is an increase of $50,887,000, or 15.5 percent, above estimated current-year expenditures. Total expenditures, including the expenditure of SSI/SSP payments to residential care providers, are proposed at $497,252,000, which is an increase of $64,722,000, or 15 percent, above estimated current-year expenditures.

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

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 3
Department of Developmental Services
Regional Center and Community Development Programs
Budget Summary
1984–85 through 1986–87
(dollars in thousands)

	Expenditures			
Program	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
A. Regional centers				
Operations				
Personal services	$65,252	$76,788	$86,110	12.1%
Operating expenses	17,349	18,183	19,311	6.2
Totals	$82,601	$94,971	$105,421	11.0%
Purchase of service				
Out-of-home care	$68,949	$77,921	$112,264	44.1%
Day programs	43,028	53,640	63,368	18.1
Other	78,087	92,352	77,563	−16.0
Subtotals	$190,064	$223,913	$253,195	13.1%
B. Community development				
Community placement	$1,038	$6,982	$8,460 [b]	21.2
Program development	2,078	2,927	4,996	70.7
Cultural center	139	145	145	—
Prevention	971	—	—	—
Cost-of-living adjustment	—	—	7,608	—
Subtotals	$276,891	$328,938	$379,825	15.5%
C. SSI/SSP reimbursements	$84,734	$103,592	$117,427	13.4
Totals	$361,625	$432,530	$497,252	15.0%
Funding source				
General Fund				
Regional centers	*$272,804*	*$324,846*	*$373,829*	*15.1%*
SSP [a]	*36,436*	*44,545*	*50,494*	*13.4*
Program Development Fund	*3,091*	*2,628*	*4,971*	*89.2*
Federal funds (SSI) [a]	*48,298*	*59,047*	*66,933*	*13.4*
Reimbursements	*996*	*1,464*	*1,025*	*−30.0*

[a] Assumes funding split of 43 percent General Fund and 57 percent federal funds.
[b] This does not include $370,000 for eight client placement coordinators in the regional centers' purchase-of-service budget.

Table 4 shows the changes to the budget for regional centers proposed in 1986–87.

Table 4
Department of Developmental Services
Regional Centers Proposed 1986–87 Budget Changes
(dollars in thousands)

	Operations	*Purchase of Services*
1985–86 expenditures (Budget Act)	$93,173	$224,468
Adjustments:		
1. Ch 26/85 (AB 114) early intervention services	70	95
2. Community placement transfer	−292	—
3. Prevention fund transfer	2,020	350
4. Increased federal SSI/SSP funding	—	−1,000
1985–86 expenditures (revised)	$94,971	$223,913

Baseline adjustments:		
1. Full-year cost of Ch 26/85	—	55
2. Community placement plan fund transfer	292	—
3. Federal funds adjustment	—	1,000
4. Caseload and cost increases	10,158	28,227
Subtotals	$105,421	$253,195
Cost-of-living adjustment	208	7,284
1986–87 expenditures (proposed)	$105,629	$260,479
Change from 1985–86 (revised):		
Amount	$10,658	$36,566
Percent	11.2%	16.3%

Regional Center Caseload Estimates

The department estimates that regional center caseload will be 82,423 in 1986–87. This is an increase of 4,111, or 5.2 percent, above the estimated current-year caseload. The 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 1986–87.

Table 5

Department of Developmental Services
Regional Centers' Midyear Caseload
1981–82 through 1986–87

	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	74,184	3,286	4.6
1985–86 (estimated)	78,312	4,128	5.6
1986–87 (proposed)	82,423	4,111	5.2

Client Characteristics

Developmentally disabled clients in the community and the hospitals have varying levels of disability and thus have many different service needs. Of the 82,423 clients in the regional center caseload, 6,385 are state hospital clients. Approximately 62 percent of community clients reside at home or in an independent living arrangement; 38 percent reside in a long-term care or a community care facility.

Table 6 compares the characteristics of regional center and state hospital clients. Generally speaking, state hospital clients suffer from more severe disabilities than regional center clients. For example, 71 percent of state hospital clients are profoundly retarded, as opposed to 11 percent of regional center clients. One-third of the hospital clients have severe behavior problems as compared to one-tenth of the regional center clients. One-half of hospital clients cannot understand any spoken words, as compared to 15 percent of regional center clients. Sixty-five percent of state hospital clients must be fed or need help eating, as compared to 21 percent of regional center clients. Over 80 percent of state hospital clients need diapers or help with toileting, compared to 34 percent of regional center clients.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 6
Department of Developmental Services
Characteristics of Clients in the Community and State Hospitals
December 1985

	Percent of Community Clients	*Percent of State Hospital Clients*
Retardation level:		
Profoundly retarded	11%	71%
Severely retarded	23	16
Moderate or mildly retarded	59	13
Average or not diagnosed	7	—
Behavior assessment:		
Severe behavior problem	10	34
Moderate or minimal	33	35
No behavior problem	57	31
Violence:		
Frequently violent	3	12
Often violent	18	28
Seldom violent	25	14
Never violent	54	46
Understanding:		
Spoken words not understood	15	49
Few words understood	31	32
Conversation understood	54	19
Walking:		
Wheelchair or bedridden	10	34
Walks with assistive device	8	8
Can walk	82	58
Eating:		
Must be fed	5	23
Needs help	16	42
Can feed self	79	35
Visual impairment:		
Totally or nearly blind	3	8
Profound or severe impairment	3	9
Moderate impairment	12	10
Normal, near normal	82	73
Hearing impairment:		
Profound or severe loss	4	8
Moderate or mild loss	7	15
No loss or not diagnosed	89	77
Toileting:		
Needs diapers	13	49
Needs help toileting	21	32
Independent	66	19
Major medical problems:		
Two or more	5	30
One	11	16
None	84	54

Residential Care Rate Pilot Implemented

We recommend that when the department submits its April 1, 1986, revised residential care rate proposal, it (1) identify the total cost of implementing the program statewide and (2) address specified other cost and policy issues.

Background. Current law requires the department to set rates for board and care facilities based upon the following factors: (1) the clients' basic living needs, (2) the 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. Any rate increases, however, must be approved by the Legislature.

The department's last board and care facility rate study was conducted in 1984 and resulted in a proposal for restructuring rates and conducting a rate pilot project. The department presented its proposal to the Legislature in 1985. The Budget Act of 1985 directed the department to conduct a pilot project for six months in three regional centers and to submit a revised proposal to the Legislature by April 1, 1986.

Summary of the Department's Proposal. When it proposed the pilot project, the department identified the following major problems with the current system, which it believed would be corrected in the pilot:

- ***The Current Rates are Based on Questionable Assumptions.*** Current rates paid to providers for client care vary according to client classification. Clients are classified as needing *basic, minimal, moderate,* or *intensive* supervision, based upon their skills with daily living activities. A 1983 department study indicated that most clients need about the same level of supervision, and only certain clients need substantially more supervision. Consequently, the proposed rate structure would recognize only a moderate and high level of supervision.
- ***The Current Client Assessment Tool is Too Subjective.*** The client assessment tool is used to classify clients for payment purposes. The department has many concerns about the client assessment tool now used and proposes to use a new tool that it recently devised. The department believes that its new assessment tool could improve the level of objectivity in client assessment.
- ***Special Services Are a Fiscal Problem and Create Confusion.*** Shortly after the current rate structure was implemented, some facilities began requesting compensation for providing special services, such as behavior modification. The costs for these special services have grown from $3,000,000 in 1977 to an estimated $21,600,000 in 1985–86. Funding for "special services" is widely perceived as a rate supplement to adjust for inadequate residential care rates. There are no detailed services standards for most board and care facility clients. Detailed requirements, however, do exist for special services clients. The coexistence of special services agreements with other departmental service regulations creates confusion for facilities that have both special service clients and other clients. The proposed rate structure would eliminate special services and would instead correct for inadequate residential care rates by using rates that reflect actual provider costs.
- ***The Current Rates Do Not Recognize Certain Costs.*** The department states that the current board and care facility rates generally are not high enough to fund all of the services which the department wishes to provide. Specifically, no allowance is made for night shift staffing, staff illness, or staff vacation, and no allowance is made for the cost difference between owner- and staff-operated facilities. In addition, the department indicates that the COLAs given in past years often have not been sufficient to cover increasing costs. The proposed

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

rate structure would, on the average, pay facilities for their actual costs by reimbursing them for their actual 1984 average cost plus an adjustment for inflation that has occurred since 1984.

How Rate Categories Would Change. The rate structure developed for the pilot project has four client rate levels and two operator categories—owner- and staff-operated. The following section explains and compares the proposed and the current rate structures.

Level 1: Basic. Currently, all board and care facilities receive $531 per month from the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program for the care that they provide to developmentally disabled clients. The SSI/SSP program is a cash grant public assistance program supported 53 percent from the General Fund and 47 percent from federal funds. If a developmentally disabled client in a board and care facility is classified as *basic* or level 1, the facility receives no additional support for the care of that client. Currently, it is estimated that 2.3 percent of developmentally disabled clients in board and care facilities are classified as level 1 *(basic)*. The department's proposal would not change the rate of payment or the classification system for *basic* clients.

Levels 2 and 3. Currently, board and care facilities that care for developmentally disabled clients who are classified as minimal, moderate, or intensive receive the SSI/SSP payment of $531 per client per month *plus* a rate supplement that varies from a low of $126 to a high of $502 per client per month. The amount of the rate supplement varies not only with the classification of the client but with the size of the facility. Generally, larger facilities receive larger rate supplements. Table 7 shows how the total amount paid to the facility currently varies with client classification and facility size. The rates shown on Table 7 include both the SSI/SSP payment and the rate supplement.

Table 7
Department of Developmental Services
Board and Care Facilities
Monthly Rates by Facility Size
Effective January 1, 1986

Client Classification	*1–6 Beds*	*7–15 Beds*	*16–49 Beds*	*50+ Beds*
Minimal care	$657	$679	$745	$738
Moderate care	829	853	918	910
Intensive care	944	967	1,033	1,025

Currently, it is estimated that 26 percent of the clients in board and care facilities are classified as in need of minimal care, 39 percent are classified as needing moderate care, and 32 percent are classified as needing intensive care.

The department proposes to replace the minimal, moderate, and intensive client categories with a *standard* classification and an *additional care and training* classification. In addition, the department proposes to eliminate variation in rates based on facility size, and instead substitute "owner-operated" and "staff-operated" as a basis for rate differentials. Table 8 shows how the rates would vary under the new client and facility categories. The rates shown on Table 8 include both the SSI/SSP payment and the rate supplement.

Table 8
Department of Developmental Services
Proposed Monthly Rates for
Board and Care Facilities

	Facility Type	
Client Classification	*Owner-Operated*	*Staff-Operated*
Level 2: Standard	$779	$938
Level 3: Additional training	1,072	1,293

Under the department's proposal, the minimum monthly rates payable would increase from $657 to $779. Approximately 5,368, or 29 percent, of board and care facility clients currently receive less than $779 per month. The maximum rate payable would increase from $1,025 per month to $1,293 per month. The department cannot determine how many facilities could benefit from the change in the maximum rate.

Level 4: Negotiated Rate. This level is for clients with special needs that go beyond the needs of level 2 or level 3 clients. The department would negotiate with providers to set rates for individual clients and would include requirements of the program in a contractual agreement that could be monitored. The negotiated rate would use level 2 as its cost base. Clients could be assigned to level 4 for no more than two years.

Under the department's proposal, if a facility can only provide a certain level of care, it would only be reimbursed for that level. For example, if a facility is providing level 2 care to a level 3 client, the facility would be reimbursed at the lower level 2 rate for that client. If a facility is providing level 3 care to a level 2 client, the facility would be reimbursed for the lower level 2 rate for that client. With this system, the department can systematically determine if facilities are providing the correct level of care to clients and adjust facility reimbursements accordingly. As a result, the method used to determine the correct reimbursement level for particular facilities would make it easier to monitor the quality of facility activities.

Benefits of the Proposed Residential Care Rate System. The department expects its proposal to result in many benefits, including:

- ***Defined Responsibilities.*** The proposed system would clearly define the services that board and care facilities are required to provide. The current system does not have specific client care requirements. As a result, providers can receive rate supplements for existing clients without providing a substantially different level of service to these clients.
- ***Quality of Care.*** The ability of the department to monitor the quality of care would be improved because the requirements of service are clearly specified for each provider. If the provider does not provide the required service, then the department would adjust its reimbursements accordingly.
- ***Cost Containment.*** The proposed system should help contain costs in three ways. First, by clearly defining client service requirements, some clients' overall level of functioning should improve, thus preventing them from being classified as needing higher levels of service. Second, by clearly defining client service requirements, providers should no longer have the opportunity of increasing revenues without actually providing more services. Third, the negotiated rate would clearly outline the client improvement to be attained. If the client improvement is not achieved, the client service would have to

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

be reconsidered and renegotiated. Under the current system, once special services are negotiated, they essentially remain in place for the life of the client.

Fiscal Impact of the Proposed Rate Structure. The department cannot estimate the statewide cost of the rate proposal. It explains that in order to calculate total costs, it would have to actually classify clients under the proposed rate structure on a case-by-case basis. For the same reasons, the department cannot provide an estimate of which providers or regional centers may experience decreased or increased reimbursements as a result of the new system. Reimbursements to individual providers could increase or decrease as a result of this proposal.

Pilot Project Modifications. The Department of Finance notified the Legislature on December 31, 1985, that it planned to augment the 1985–86 budget for three regional centers that are participating in the pilot by a total of $1,081,360. The augmentation will fund these centers' participation in the rate pilot during the last five months of 1985–86 (from February 1986 through June 1986).

The $1,081,360 was appropriated in the 1985 Budget Act for other programs that have experienced delays. The Department of Finance explains that the augmentation consists of two parts: (1) $907,970 (84 percent) for revised estimates of facility and staff costs and (2) $173,390 (16 percent) to fund the department's decision to hold harmless, or "red circle," facilities participating in the pilot. Pilot program providers who would have lost reimbursement under the new pilot rate structure will not see their reimbursements fall below existing levels. The department believes it is necessary to red circle the rates in order to have facilities participate in the program voluntarily, as specified by language in the Budget Act of 1985.

The augmentation represents a total increase to the three regional center purchase-of-service budgets of 9.9 percent. If the funds for "red circling" are excluded, the increase is 8.3 percent. Thus, if these three regional centers are typical of all regional centers, the full-year cost of implementing the proposed rate structure could reach $18,200,000 statewide.

Revised Residential Care Rate Proposal. The department is required by the Budget Act of 1985 to submit a revised residential care rate proposal to the Legislature by April 1, 1986.

The department indicates that it may request separate legislation to implement its rate change proposal, rather than make the change through the Budget Act. In either case, the department should provide the Legislature with sufficient information to evaluate the effects of the rate pilot as well as the effects of implementing the department's final proposal on a statewide basis.

Unless the department collects additional information, however, it will not be able to do this. Specifically, we believe that in addition to providing the information required by the Budget Act of 1985, the department should address the following issues raised by the revised rate proposal:

- ***Overall Costs.*** The department should provide estimates of the cost to implement the proposal statewide, using its best assumptions regarding client classifications based on client assessment samples. The department should also estimate the statewide cost of a "red circle" policy (that is, a policy of holding those facilities that would experience a rate decrease under the original proposal at their current reimbursement level).

- ***Regional Center Funds.*** Under the proposed residential care rates, reimbursements to individual providers will change. The department should estimate the net change for each regional center.
- ***Red Circling.*** The department should discuss what alternative participation incentives it has considered and why it made the decision to "red circle" (that is, hold facilities harmless from reimbursement decreases).
- ***Proposal Modifications.*** The department has made changes to salary levels and staff-to-client ratios in its pilot project. The department should justify these changes and explain why it has revised its initial proposal.
- ***Single Client Level Incentives, Client Care.*** The proposed system encourages providers to have only one type of client in a particular facility in order to maximize revenues. The department should discuss how this incentive will affect the movement of clients and the quality of client care.

In sum, we recommend that the department include in its April 1, 1986, report the information which the Legislature needs to evaluate the department's rate proposal. Specifically, the report should (1) summarize the rate changes proposed and the reasons for the change, (2) provide estimates of the statewide cost of implementing the proposal, (3) estimate the statewide cost of holding facilities harmless from rate decreases, (4) estimate the fiscal effect of the proposal on the 21 regional centers, (5) discuss the cost and savings and the reasons for any changes in facility staff salary rates and staff-to-client ratios, and (6) discuss the likely effects on client movement and quality of care that will result from the fiscal incentives established by the proposal.

Board and Care Cost-of-Living Adjustment Too High

We recommend that the Legislature reduce by $2,332,000 the amount budgeted for the cost-of-living adjustment for board and care facilities to eliminate double-budgeting.

The budget proposes $7,284,000 from the General Fund to provide a discretionary 2 percent cost-of-living adjustment (COLA) for all regional center providers.

Our analysis indicates that there are three problems with this proposal:

1. ***The proposal favors one class of regional center facilities.*** The budget proposes to provide board and care facilities with an additional COLA of $2,332,000—more than what would be given to other providers who serve developmentally disabled clients. The department has not provided any indication that board and care providers face larger cost increases than other providers. We are not aware of any analytical reason why these facilities should be singled out for special cost-of-living increases.

2. ***Special rate increases for board and care facilities should be justified in connection with the department's rate increase proposal.*** If board and care facilities serving developmentally disabled clients warrant additional rate increases, the increases should be based on specific cost differentials. The department's rate proposal for board and care facilities will provide a more appropriate forum for the Legislature to address such differentials.

3. ***The proposal results in a double COLA on the SSI/SSP share of board and care cost.*** Board and care facilities receive reimbursements from

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

the two state departments—the Department of Developmental Services (DDS) and the Department of Social Services (DSS). The DSS currently reimburses board and care facilities at the rate of $531 per client per month through the SSI/SSP program. The DDS also provides additional rate supplements to board and care facilities. The DDS rate supplements average approximately $530 per month. Thus board and care providers, on the average, receive approximately $1,061 per month per developmentally disabled client when both sources of reimbursement are considered.

The budget proposes to increase the average combined reimbursement of $1,061 by 2 percent, or approximately $21 per month, effective July 1986. The amount budgeted from the General Fund for the 2 percent increase is $4,554,000. This means that the state would be funding the COLA for both the state *and federal* portions of the board and care rates. Moreover, in January 1987, the DSS will increase its $531 SSI/SSP rate by 4.7 percent, or $25 per month. The $25 monthly SSI/SSP increase will cost approximately $3 million in 1986–87, of which the state's share is 57 percent, or $1.7 million. On an annual basis, the General Fund share of the increase will be $3.4 million.

The effect of the department's proposal is to provide two COLAs on the SSI/SSP portion of the monthly reimbursement. One cost-of-living increase will be paid through the DDS; the other through the DSS.

For these reasons, we recommend that the Legislature (1) provide a COLA from the proposed General Fund increase for only the DDS portion of board and care facility costs and (2) delete $2,332,000, which is the amount of the 2 percent COLA on the SSI/SSP funds.

Some Regional Center Core Staffing Salary Increases Too High

We recommend that the Legislature delete funds budgeted for regional center core staffing salary increases exceeding 6 percent for a saving to the General Fund of $611,000.

The budget proposes to augment regional center personal services by $611,000 from the General Fund to increase the salary of four staff classifications by more than the 6 percent increase authorized for all other regional center employees.

The department prepares the regional center operations budget using a staffing and salary model that utilizes caseload data and staff-to-client ratios. In addition to workload increases, the regional centers receive funds for salary increases. The salary adjustment is based on the salary increases provided to state employees in the prior year. The centers, however, may use the funds to establish any staff configuration and pay any salaries they deem appropriate.

The department proposes to increase funding for core staffing salaries so that what the centers receive more closely reflects the actual salaries paid to or responsibilities of the center director, administrator, chief counselor, and executive secretary positions. The director's salary specified in the model would be increased to the top step of the salary range. The salaries specified in the model for the executive secretary, administrator, and chief counselor would be increased to reflect expanded responsibilities.

Our analysis indicates that the proposed salary increases would not be consistent with the policy that underlies regional center core staffing reimbursement. Currently, the regional center core staffing methodology allocates funds for positions using the mid step of the salary range. The methodology assumes that this allows the regional centers sufficient funding for staff salaries, even though individual salaries may be above or below the mid step. The department's proposal would result in one position, the center director, being reimbursed at the top step, while all other positions would receive reimbursement at the mid step.

The department acknowledges that no systematic study was used to justify the proposed departure from the current policy for determining the salaries of the administrator, chief counselor, or executive secretary. Moreover, the regional centers would not have to follow the department's salary classifications when they set staff salaries; they could use the additional funding for any number of personnel-related purposes. Furthermore, there is no basis for believing that the services provided could not be obtained at the current salary levels.

For these reasons, we can see no justification for funding salary increases above 6 percent. Accordingly, we recommend that the additional funds be deleted from the regional centers' operation budget, for a savings to the General Fund of $611,000.

Medicaid Waiver Still Pending

The Department of Finance (DOF) notified the Legislature on October 15, 1985, that it planned to authorize the expenditure of $244,003 in 1985–86 to fund "Medicaid waiver" staff in the regional centers. These staff document the services received by clients under a Medicaid waiver, so that the state can qualify for federal reimbursements. The $244,003, which was appropriated by the Budget Act of 1985, provided support for the period of September 29, 1985, through December 31, 1985. Language in the 1985 Budget Act prohibited the DDS from continuing Medicaid waiver staff if the waiver for which the staff were authorized was denied.

The Medicaid waiver covers 3,700 community-based clients. Under the waiver, California can claim Medicaid (Medi-Cal) funding for home- and community-based services—services that normally cannot be billed through the Medi-Cal program. Without the waiver, the cost of these home- and community-based services would have to be met by the General Fund. The DDS obtained its initial Medicaid waiver on April 25, 1985, retroactive to July 1, 1982. The waiver expired June 20, 1985. The DDS has submitted a proposal to the U.S. Department of Health and Human Services (DHHS) for a new three-year Medicaid waiver.

At the time this analysis was written, the DHHS was still in the process of reviewing the DDS waiver request. A final DHHS decision was expected by the second week in February 1986. The DDS estimates that if approved and made retroactive to September 29, 1985, the waiver will generate $29,760,000 in federal fund revenues for 1985–86.

Until a final decision is made, it is important for the department to keep current the Medicaid records of eligible clients because retroactive Medicaid certification of clients is not permissible. On this basis, we conclude that maintenance of Medicaid waiver staff in the current year is justified until the DHHS renders a decision.

Conversion of Community Care Facilities to ICF/DD-N Justified

We recommend approval.

The budget proposes to use $500,000 from the Program Development Fund (PDF) to facilitate the conversion of community care facilities to intermediate care facilities for the developmentally disabled—nursing

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

(ICF/DD-Ns). The department proposes to provide approximately $10,000 per facility to meet the requirements of converting to a ICF/DD-N.

Chapter 1496, Statutes of 1985 (SB 851), directed the Departments of Health Services (DHS) and Developmental Services (DDS) to develop and implement licensing and Medi-Cal regulations for a new health facility category known as ICF/DD-N. ICF/DD-Ns are residential facilities that provide nursing supervision and intermittent health care services which will be Medi-Cal reimbursable. The facilities will serve medically fragile persons.

The department estimates that the emergency regulations will be adopted by DHS in October 1986 and that final adoption will be completed by April 1987.

The department has identified approximately 50 community care facilities serving medically fragile persons with developmental disabilities that will be eligible to convert to the ICF/DD-N category. A 1981 study shows that these facilities were not providing sufficient nursing care or developmental services. Currently, these facilities are licensed by DSS, which is allowing them to continue operation until a more appropriate licensing category is developed.

Our analysis indicates that expenditure of $500,000 will speed the conversion of facilities to ICF/DD-Ns, and thereby improve services to developmentally disabled persons. On this basis, we recommend that the Legislature approve the amount as budgeted.

Community Placement of State Hospital Residents Proposed

We recommend approval.

The budget proposes $8,830,000 for the regional centers to use in placing 750 state hospital residents into the community. This amount consists of (1) $7,830,000 from the General Fund and (2) $1,000,000 from the Program Development Fund (PDF). The amount requested is $327,000, or 3.8 percent, above current-year estimated expenditures. Nevertheless, the department anticipates placing 205 fewer state hospital clients in community facilities during 1986–87 than it placed in the current year.

Background. The 1984 Budget Act included $6,478,000 from the General Fund to place 810 state hospital residents in community facilities. During 1984–85, 592 state hospital clients actually were placed in the community—208 less than the budget anticipated. In the current year, the department expects to place 955 state hospital clients, including most of the 208 clients not placed in 1984–85. The 1985–86 budget for placement totals $8,503,000, including $1,439,000 in funds "rolled over" from 1984–85 and $1,000,000 from the PDF.

The $8,830,000 in the budget year would be spent as follows:

- $1,350,000 to fund the initial start-up and operating costs of 90 intermediate care facilities for the disabled-habilitative (ICF/DD-Hs) and day programs that eventually will provide services to approximately 540 clients.
- $1,934,000 to fund regional center administrative costs incurred in (1) placing 750 clients in 1986–87 and (2) identifying an additional 750 clients for placement in 1987–88.
- $5,546,000 to fund regional center purchase-of-service costs for 750 clients in 1986–87. The department indicates that 23 percent of these

clients will need special services, compared with only 13 in 1985–86. The cost of these special services will be partially offset, however, by the fact that the percentage of placements into homes or board and care facilities (which do not require fiscal assistance from the regional center) will increase from 48 in 1985–86 to 58 in 1986–87.

Table 9 shows that the department has met 31 percent of its estimated client placement goal during the first four months of 1985–86. In 1984–85, the department had met only 24 percent of its goal by December.

Table 9
Department of Developmental Services
Community Placements by Regional Center
1984–85 to 1985–86

	1984–85			*1985–86*	
	Projected Placements	*Dec. 84 Actual*	*June 85 Actual*	*Projected Placements*	*Nov. 85 Actual*
Alta California	30	9	35	20	14
Central Valley	10	16	30	72	22
East Bay	78	26	56	92	11
Eastern Los Angeles	20	5	8	25	14
Far Northern	40	4	8	34	19
Frank D. Lanterman	32	13	34	28	6
Golden Gate	39	9	45	69	14
Harbor	78	4	70	37	5
Inland East	79	4	20	72	51
Inland West [a]	24	14	26	37	3
Kern	37	8	26	39	8
North Bay	23	10	16	31	14
North Los Angeles County	47	6	36	61	8
Orange County	18	7	10	17	4
Redwood Coast	65	14	31	93	30
San Andreas	26	4	23	39	19
San Diego	15	4	13	19	6
South Central Los Angeles	51	21	44	41	9
Tri-Counties	13	6	15	21	6
Valley-Mountain	56	7	33	75	26
Westside	19	3	13	33	11
Totals	800	194	592	955	300
Percent placed		24.3%	74.0%		31.4%
Less clients entering hospitals	−530	−168	−399	−515	−238
Plus client deaths	150	63	136	145	48
Net reduction in state hospital population	420	89	329	585	110

[a] Inland West was formerly San Gabriel.

The department's placement proposal is consistent with prior proposals approved by the Legislature. Specifically, the proposal again provides start-up funds for the development of intermediate care facilities and day care programs that will be capable of serving current state hospital clients who have major disabilities. The proposal funds regional center administration costs for the placement of clients at levels that are consistent with the 1985–86 cost per placement. Finally, the budget for community services needed by 750 state hospital clients appears reasonable and is consistent with past budgets. For these reasons, we recommend that the amount be approved as budgeted.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Program Development Funding Increases

We recommend approval.

The budget proposes expenditures of $6,213,000 from the Program Development Fund (PDF) in 1986–87, consisting of $5,188,000 in parental fees and $1,324,000 in federal reimbursements from the State Council on Developmental Disabilities. This is an increase of $2,080,000, or 50 percent, above current-year expenditures.

The increase in available funding primarily reflects new parental fees and improved collection efforts. Chapter 268, Statutes of 1985, authorized fee collection from parents whose children reside in intermediate care facilities. In addition, the department has centralized parental fee collections.

The proposed expenditures from the PDF include $217,000 to support four positions in the department, $1,000,000 for the community placement of state hospital residents, and $4,996,000 for grants in support of new service delivery projects. PDF grant funding for new programs is limited to 24 months. The ongoing costs of new projects must be funded from the regional centers' purchase-of-services budget. The budget for regional centers proposes a General Fund augmentation of $3,866,000 to support programs in 1986–87 that were started with PDF funds in 1985–86.

III. STATE HOSPITALS

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 $459,570,000 (all funds) for programs to serve these state hospital clients in 1986–87. This is a decrease of $68,988,000, or 13 percent, below estimated current-year expenditures. The primary reason for the decrease is the proposed transfer of Napa State Hospital to the Department of Mental Health.

The proposed General Fund appropriation for the DDS hospitals of $50,008,000 is $349,777,000, or 88 percent, below estimated current-year expenditures. This reduction reflects a change in how expenditures by the hospitals are shown in the budget; it does not reflect a change in service levels. Currently, the department budgets General Fund money to operate the hospitals and then deposits its Medi-Cal reimbursements for hospital services directly into the General Fund. The amount spent shows up in the budget as an expenditure; the reimbursements show up as revenue. In the budget year, Medi-Cal reimbursements will be used to finance expenditures directly, in effect offsetting the expenditures as reflected in the budget. The change follows generally accepted accounting principles.

The budget projects an average hospital population of 6,387 developmentally disabled *clients* in 1986–87. This is 439 clients, or 6.4 percent, less than the current-year level. The budget proposes 9,248.4 *positions* in hospital programs for developmentally disabled clients.

The average cost per client in 1986–87 is projected to be $65,621, an increase of $5,698, or 9.5 percent, above the cost per client in the current year. The 1985–86 cost-of-living increases added $2,814 to the average cost per client per year. The 1986–87 cost-of-living increases will add $3,263 to the average cost per client per year.

Table 10 displays expenditures, funding sources, population, positions, and cost per client for hospital programs serving the developmentally disabled.

Table 10

Department of Developmental Services: State Hospitals
Budget Summary, Population, and Cost Per Client
1984–85 through 1986–87
(dollars in thousands)

	Expenditures			
	Actual 1984–85	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
A. Budget summary				
Program				
Developmental services programs	$390,253	$409,031	$419,033	2.4%
Mental health programs	108,796	119,527	40,447	−66.2 [a]
Cost-of-living adjustment	—	—	90	—
Totals	$499,049	$528,558	$459,570	−13.1%
Funding source				
General Fund	*$382,775*	*$399,785*	*$50,008*	*NMF* [b]
SAFCO	—	*2,807*	*12,673*	*351.5*
Federal funds	*730*	*895*	*944*	*5.5*
Mental health reimbursements	*108,796*	*119,527*	*40,447*	*−66.2* [a]
Other reimbursements	*6,748*	*5,544*	*355,498*	*NMF* [b]
B. Average population	7,232	6,826	6,387	−6.4%
C. Cost per client	$53,962	$59,923	$65,621	9.5%

[a] Reflects transfer of Napa State Hospital to the Department of Mental Health.
[b] Not a Meaningful Figure. Reflects proposal to replace $350,478,000 General Fund with Medi-Cal reimbursements.

Table 11 shows the changes to the current-year budget proposed for 1986–87. The budget proposes a net reduction in General Fund expenditures of $349,777,000, due primarily to (1) the accounting change mentioned earlier and (2) cost savings due to hospital population decreases. The major factors that increase 1986–87 expenditures are the 1985–86 and 1986–87 salary and benefit adjustments granted to state employees.

Table 11

Programs for the Developmentally Disabled
Proposed 1986–87 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1985–86 expenditures (Budget Act)	$378,845	$501,319
Baseline adjustments, 1985–86:		
1. 1985–86 salary and benefit increases	19,227	24,993
2. Elimination of vacant positions	−110	−133
3. Fair Labor Standards Act (FLSA) overtime funding	2,690	3,493
4. Adjustment for 6 percent salary savings	−827	−1,074
5. Other increases and decreases	−40	−40
1985–86 expenditures (revised)	$399,785	$528,558

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Baseline adjustment, 1986–87:		
1. Full-year cost of 1985–86 salary and benefit increases and 1986–87 salary adjustments	$19,605	$25,624
2. Merit salary adjustments	—	—
3. Cook chill implementation	−854	−959
4. SAFCO equipment funding	−4,765	—
5. Reimbursements from Medi-Cal	−350,478	—
6. Unit dose implementation	−722	−938
7. One-time funding reductions:		
FLSA overtime	−2,690	−3,493
Salary savings adjustment	827	1,074
8. Additional holiday	353	353
9. Other increases and decreases	−84	−40
Caseload and cost adjustments:		
1. Full-year effect of 1985–86 population decrease	−6,693	−7,889
2. Planned scheduled treatment—phase III at Camarillo	—	366
3. 1986–87 population decrease	−3,922	−3,922
4. Inflation adjustment for selected operating expense items	1,384	1,798
5. Savings related to 1985–86 community placement effort	−1,521	−1,521
Program change proposals:		
1. Reduction in administrative positions	−$1,197	−$1,555
2. Salary savings relief	1,823	2,368
3. Ventilator client staffing	447	447
4. Redirect level of care teachers to AB 1202 education funds	—	—
5. Janitorial contract	−1,380	−1,380
6. Napa transfer to DMH	—	−84,512
7. Augmentation of special repairs	—	5,101
Cost-of-living adjustment on education funds	90	90
1986–87 expenditures (proposed)	$50,008	$459,570
Change from 1985–86 (revised):		
Amount	−$349,777	−$68,988
Percent	−87.5%	−13.1%

Hospital Populations

Table 12 shows the average state hospital population of developmentally disabled clients for each of the years 1982–83 through 1986–87. It shows that the state hospital population of developmentally disabled persons has been declining gradually for several years as a result of the department's

Table 12
Department of Developmental Services
State Hospital Average Population [a]
1982–83 through 1986–87

	Actual 1982–83	*Actual 1983–84*	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
Agnews	1,047	1,059	1,054	1,045	1,033	−1.1%
Camarillo	577	579	571	557	551	−1.1
Fairview	1,183	1,127	1,065	974	883	−9.3
Lanterman	1,211	1,185	1,146	1,050	953	−9.2
Napa	350	311	237	191	178	−6.8
Porterville	1,419	1,349	1,307	1,235	1,145	−7.3
Sonoma	1,321	1,285	1,303	1,240	1,115	−10.1
Stockton	579	564	549	534	529	−0.9
Totals	7,687	7,459	7,232	6,826	6,387	−6.4%

[a] This table shows average daily population for each fiscal year. Hospital staffing estimates are based on year-end population projections, not projections of the average hospital population.

and the regional centers' efforts to care for clients in a community setting whenever possible. The budget projects an overall population reduction of 6.4 percent in 1986–87. The size of the reduction varies by hospital. Stockton State Hospital's population is projected to decline by less than 1 percent, while the population at Sonoma State Hospital is projected to decline by more than 10 percent.

Cost Per Client

Table 13 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 different hospitals. Hospitals with more difficult to care for clients receive larger staff allocations. Treatment staff cost in the current year range from a low of $30,553 per client at Porterville to a high of $40,230 at Camarillo.

Support staff costs per client in the current year vary from a low of $15,347 per client at Porterville to a high of $21,719 at Stockton. The reasons for this variation are many, including differences in the number of support positions allocated to individual hospitals in past years. Until recently, the hospitals did not attempt to reduce excess staff at particular hospitals through reallocation of support positions. Although the department is now 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 number of workers entirely on the number of clients. Another determinant of support staff size not related to population is the number of acres to be maintained. The kinds of employee classifications 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 $6,752 per client at Porterville to a high of $11,553 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.

We recommend approval of the following significant funding and staffing changes proposed for 1986–87 that are not discussed elsewhere in this analysis.

- Staff Augmentation for Ventilator Clients. The budget proposes a $447,000 augmentation from the General Fund to provide 11 additional positions for the care of ventilator clients. Ventilator clients need the assistance of ventilator devices to maintain their breathing for the remainder of their lives. The department has determined that because of the care needed by the ventilator clients, additional staff positions are required. The position augmentations appear to meet an essential need.
- Community Education for Hospital Clients. The budget proposes to redirect $1,070,000 to fund contracts for client education in the community. The department proposes to eliminate 33 hospital teaching positions that it has held vacant in order to fund contracts with local school districts. This proposal would, in effect, recognize the hospitals' current operating procedure. Chapter 1191, Statutes of 1981 (AB 1202), requires that hospital clients be taught in the least restrictive setting.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Table 13
State Hospital Cost Per Client
Programs for the Developmentally Disabled
1984–85 through 1986–87

	Treatment Staff	*Support Staff*	*Operating Expenses*	*Total*
Agnews				
1984–85	$29,044	$15,311	$8,966	$53,321
1985–86	34,339	16,717	7,911	58,967
1986–87	35,535	17,345	9,459	62,339
Camarillo				
1984–85	$31,362	$20,298	$9,955	$61,615
1985–86	40,230	19,726	8,840	68,796
1986–87	42,133	20,834	10,501	73,468
Fairview				
1984–85	$28,560	$17,516	$8,332	$54,408
1985–86	32,110	20,239	8,310	60,659
1986–87	35,008	22,194	10,966	68,168
Lanterman				
1984–85	$29,445	$15,218	$9,011	$53,674
1985–86	32,671	17,047	9,764	59,482
1986–87	36,056	18,907	13,036	67,999
Napa				
1984–85	$30,588	$16,789	$8,314	$55,691
1985–86	38,390	18,149	7,454	63,993
1986–87	39,996	20,890	7,243	68,129
Porterville				
1984–85	$27,470	$13,525	$6,380	$47,375
1985–86	30,553	15,347	6,752	52,652
1986–87	32,812	16,529	9,234	58,575
Sonoma				
1984–85	$28,576	$15,871	$8,104	$52,551
1985–86	32,454	16,807	8,806	58,067
1986–87	34,886	18,132	11,540	64,558
Stockton				
1984–85	$28,247	$22,066	$11,066	$61,379
1985–86	31,485	21,719	11,553	64,757
1986–87	32,185	22,275	14,512	68,972

Updates on Hospital Population Estimates Needed

We withhold recommendation on a proposal to eliminate 308 treatment positions, pending receipt of updated hospital population estimates. We further recommend that the department prepare and submit a revised estimate of 1986–87 hospital populations and staffing requirements.

The budget proposes to eliminate 308 state hospital positions by June 1987, resulting in a partial-year savings during 1986–87 of $3,922,000. The full-year savings that will result from this proposal total $10,529,000. The elimination of these positions reflects the department's estimate that the number of developmentally disabled persons residing in state hospitals will decline by 400 between June 30, 1986, and June 30, 1987.

Background. 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 treatment staff has been reduced as well. The annual staffing adjustments traditionally have contained two elements—a population change adjustment and a 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 proposed staffing reduction of 308 positions consists of two elements. First, there is a reduction of staff related to a population decline of 400 clients. Second, there is an increase in staffing related to the level-of-disability adjustment. Table 14 shows the position changes related to each of these two elements.

Table 14

Department of Developmental Services
Population and Level-of-Disability Adjustments
In The State Hospitals

	Positions	*1986–87 Savings*	*Full-Year Savings*
A. Staff adjustment related to population decline (400)			
Treatment staff	395	$6,302,000	$12,604,000
Food and clothing	—	305,000	610,000
B. Staff adjustment related to level of disability			
Treatment staff	−87	−2,685,000	−2,685,000
Totals	308	$3,922,000	$10,529,000

Our analysis indicates that the department's estimates in past budgets have overstated the rate at which the hospital population declines. When this occurs, the number of treatment positions needed in the state hospitals is more than the number funded in the budget. If the pattern of overestimating population declines holds, the 1986–87 budget will not have enough staff to care for all the clients actually in the state hospitals during the budget year.

During the first six months of 1985–86, the actual population in the state hospitals was approximately 100 clients larger than what was anticipated in the budget. The shortfall in community placements (discussed earlier) is one of the reasons that the state hospital population has been underestimated.

The hospital population projected for June 30, 1986, is important because it serves as the base for projecting staffing needs in 1986–87. In order to reach the population of 6,585 clients on June 30, 1986, that the budget now projects, the hospitals' actual population must decline by 337 persons during the last five months of 1985–86, or by 67 clients per months. During the first seven months of this year, however, the hospital population declined by an average of 20 clients per month. Thus, the rate of decline will have to more than triple to reach the target population of 6,585 on June 30, 1986.

The projected rate of decrease in hospital population during 1986–87 is also important because it affects the number of treatment positions requested for the 1986–87 period. Currently, hospital population is decreasing by approximately 20 clients a month, or 240 clients annually. The budget projects that the hospital population will decrease by 400 clients in 1986–87—an average of 33 clients per month.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

In general terms, each additional client requires the addition of one new treatment position.

We asked the department if it intends to revise (1) its June 30, 1986, population estimate and (2) its estimate of the rate of hospital population decline during 1986–87. The department responded that it has not made a final decision as to whether it will prepare a revised May 1986 estimate.

Because the department (1) has underestimated its staffing requirements in the current year, (2) has based its 1986–87 staffing request on a June 30, 1986, state hospital population level that is likely to be low, and (3) assumes that state hospital population will decline at a rate that is not consistent with recent experience, we recommend that the department prepare a revised population and staffing estimate for presentation to the Legislature.

Reduction in Hospital Nontreatment Positions Questionable

We recommend that the department inform the Legislature during budget hearings what its policy is toward staffing imbalances in the state hospitals. We further recommend that prior to budget hearings, the department provide a management plan explaining how the workload of 11 administration positions proposed for elimination can be effectively absorbed.

The budget proposes to eliminate 60.5 nontreatment positions at the state hospitals, for a savings of $1,555,000. Specifically, the department proposes to eliminate (1) 11 assistant hospital administrator and administrator resident positions to reflect a more efficient management organization and (2) 49.5 food service, clerical, and other positions that exceed current staffing standards.

Background. The staffing standards developed by the Department of Developmental Services and Mental Health indicate that certain hospitals have too many employees, while others have too few. The Budget Act of 1983 required the Departments of Mental Health and Developmental Services to implement a plan for redistributing nontreatment positions among state hospitals in order to (1) conform to staffing standard guidelines and (2) provide for a more equitable distribution of staff among the hospitals.

The department developed the plan in 1983–84 and made a major effort to implement it in 1984–85. Under the plan, the department lets vacancies build up in position classifications that are overstaffed. Vacant positions are then either (1) transferred to hospitals that need such positions to reach the staffing standard or (2) reclassified to provide other categories of needed positions. For example, an excess of food services worker positions could be reclassified to groundskeepers if there is a shortage of groundkeepers.

Most of the 49.5 positions targeted for elimination are vacant. These positions have not been filled because there are more than enough of these positions to meet staffing standards. The 11 administration positions identified for elimination currently are filled.

Our analysis indicates that nontreatment position staffing imbalances at the hospitals have not yet been fully corrected and that numerous instances of understaffing, as measured by the staffing standards, still exist. In addition, our review indicates that 49.5 positions of the 60.5 positions proposed for elimination were, until recently, intended for redirection in order to lessen staffing imbalances and make progress toward the staffing standards guidelines. Finally, we note that budget materials do not specify how the workload of the 11 hospital assistant administrator positions that are proposed for elimination can be redistributed without adversely affecting hospital operations.

With this in mind, we recommend that (1) the department inform the Legislature during budget hearings what its plans are for correcting hospital staffing imbalances and (2) how transfer and redirection of vacant positions can be used to correct imbalances if the 49.5 positions are eliminated. We further recommend that prior to budget hearings, the department provide the Legislature with a management plan which specifically explains how the workload of the 11 hospital administrator positions can be absorbed without adversely affecting hospital operations.

Merit Salary Adjustment Funding Proposed

We recommend approval.

The budget proposes to redirect $2,368,000 in state hospital savings to reduce the "salary savings" factor from 6.7 percent to 6.2 percent. The savings consist of (1) $1,363,000 from eliminating 60.5 hospital nontreatment positions and (2) $1,005,000 from reducing hospital treatment positions to reflect population decreases.

The term salary savings refers to personal services costs for authorized positions that will not be incurred due to vacancies. Vacancies arise for many reasons, but most often result from delays in filling vacated or new positions and delays in implementing new programs. Salary savings also result when positions are filled with personnel who are paid salaries lower than those which their predecessors were paid. Salary savings can also result from arbitrary decisions to hold a given percentage of authorized positions vacant.

The administration generally required departments to absorb the cost of merit salary adjustments (MSAs) in preparing their budgets for 1986–87. In the case of DDS state hospitals, this requirement means that vacant positions will have to be held open longer to produce an additional $2,194,000 in salary savings needed to fund the MSAs. In effect, this forces the salary savings rate to 6.7 percent from the 6 percent reflected in the 1985 Budget Act. The proposal to reduce salary savings from 6.7 to 6.2 percent would, in effect, allow the hospitals, on average, to employ an additional 67.5 personnel.

The department states that budgeted state hospital salary savings rates would be reduced because:

- Although it has been able to meet the required minimum staffing ratio of one nursing position to eight clients in the current year, it has only been able to do so by maintaining artificially high salary savings in nontreatment positions, and redirecting funds from other hospital operations that are authorized to have a richer staff-to-client ratio.
- High salary savings rates were first budgeted in 1977–78, when a large number of new positions were added to the state hospitals that could not immediately be filled, creating a high vacancy factor. This high vacancy factor was incorporated into the budget. Since that time, however, the department has not experienced a problem in filling authorized positions. Thus, continuation of high salary savings rates *forces the departments to hold authorized positions vacant* in order to avoid spending more funds than the amount budgeted. The department has indicated that the vacancy factor probably would have returned to the historical 3 percent level had the budget not maintained an artificially high vacancy requirement.
- Other state departments that provide care to clients on a 24-hour, 7-day-a-week basis have salary savings rates that are below the 6.7

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

percent state hospital rate. These departments include the Department of Mental Health (5.4 percent), the Department of Corrections (3 percent), the Veterans' Home (6 percent), and the Youth Authority (2.9 percent).

Our analysis confirms that the current salary savings requirements for DDS's hospitals are artificially high.

The purpose of the salary savings adjustment is to avoid overbudgeting, not to *artificially* reduce expenditures. Consequently, the salary savings amount should be based on the best available estimate of *normal* position vacancies.

We have no analytical basis for determining what the current "normal" vacancy rate is for the state hospitals. This rate will tend to vary over time as personnel system requirements change, as private-sector jobs become easier or more difficult to obtain, as state salaries become more or less competitive, and as hospital administrators hold positions vacant for other reasons. The normal vacancy rate, however, appears to be lower than the current salary savings requirement.

Although our review indicates the salary savings requirement is high, there are two problems with the salary savings proposal. First, the budget pretends that it is reducing the salary saving rate by 0.5 percent when in fact it is increasing an already excess rate by 0.2 percent.

Second, the budget refuses to address the change in salary savings in a straightforward manner. Instead, it makes the reduction of the salary savings requirement at least in part contingent on the elimination of 60.5 nontreatment positions, even though a strong case can be made for continuation of these positions. This is, indeed, an odd way to construct a budget for the operation of the state hospitals.

Janitorial Contract Would Reduce Cost

We recommend approval.

The budget for 1986–87 proposes to eliminate 294.3 janitorial positions and contract out for janitorial services, for a savings of $1,380,000 to the General Fund. In 1987–88 an additional 262.6 janitorial positions would be eliminated.

The proposal provides for the gradual elimination of janitorial personnel. In 1986–87, janitorial staff at Lanterman, Porterville, Sonoma, and Stockton would be phased out. In 1987–88, janitorial staff at Agnews, Camarillo, and Fairview would be eliminated.

The department is not satisfied with the current quality of janitorial services in state hospitals. It indicates that with its present housekeeping staff, the hospitals receive many deficiency notifications during licensing, accreditation, and environmental health surveys. The department indicates that if the housekeeping deficiencies continue, it may jeopardize both federal certification (which is essential if the state is to continue receiving reimbursement) and accreditation. Thus it hopes to improve janitorial services, as well as save money by contracting for these services.

The department plans to accommodate displaced janitors by transferring 21 percent of the janitorial staff to contract janitorial jobs, 23 percent to food service vacancies, and 56 percent to other hospital positions. The department has adjusted its proposal to reflect the costs of buying out vacation time of employees who transfer to the contractor. The hospitals will retain 27 positions, or 4.8 percent of its current housekeeping staff, to perform quality review of services rendered.

The department estimates that housekeeping costs will be $1.06 per square foot, which is based on bids submitted for services at Sonoma and Stockton. Table 15 shows that the department estimates 1986–87 savings at $1,380,000, 1987–88 savings at $4,157,000, and 1988–89 savings at $4,860,000. (Savings in later years are higher because one-time costs will be incurred in the initial years.)

Our analysis indicates that the estimated savings have been derived using reasonable assumptions. We conclude, therefore, that the proposal has the potential to generate significant savings in 1986–87 and thereafter, and on this basis, we recommend that the proposal be approved.

Table 15
Department of Developmental Services
State Hospital Janitorial Contract Proposal
1986–87 through 1988–89
(dollars in thousands)

	1986–87	*1987–88*	*1988–89*
A. Current janitorial costs			
Personal services	$12,417	$13,037	$13,689
Operating expense	1,017	1,068	1,121
Subtotals	$13,434	$14,105	$14,810
B. Proposed contract costs			
1. Contracts:			
Agnews	—	$1,021	$1,610
Camarillo	—	525	1,654
Fairview	—	942	1,078
Lanterman	$549	865	908
Porterville	540	1,134	1,190
Sonoma	1,009	1,412	1,482
Stockton	250	1,051	1,104
Subtotals	$2,348	$6,949	$9,026
2. Hospital residual costs:			
Hospital costs [a]	$9,856	$3,290	$924
Other [b]	−150	−291	—
Subtotals	$12,054	$9,948	$9,950
C. Net savings	$1,380	$4,157	$4,860

[a] This cost includes operating expense costs.
[b] This cost includes vacation buy-out, operating expense savings, and other factors.

Transfer of Napa State Hospital Premature

The budget proposes to transfer $84,512,000 budgeted for the administration of Napa State Hospital from the Department of Developmental Services (DDS) to the DMH. The budget also proposes to transfer two administrative positions at department headquarters from the DDS to the DMH, effective July 1, 1986.

The department indicates that the population of developmentally disabled clients at Napa has declined from over 400 to less than 200 residents, while the mentally disabled population remains over 1,200. The department states that the hospital is inappropriately under the direction of the DDS since the majority of the caseload consists of mentally disabled clients.

The proposed transfer of Napa State Hospital to the DMH may have merit. The proposal, however, requires statutory authorization before it can be implemented. At the time this analysis was prepared, no legislation authorizing the transfer had been introduced.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Special Repairs Need More Review

We withhold recommendation on $7,908,000 requested from the Special Account for Capital Outlay (SAFCO) for state hospital special repair projects, pending further review of the projects and further discussion with the department regarding state hospital special repair needs.

The budget proposes $7,908,000 from the SAFCO for special repair projects at the state hospitals. The department received $2,807,000 from the SAFCO for special repairs in the current year. Special repairs are projects that continue the usability of a facility at its original designed level of service. In contrast, capital outlay includes new construction, alterations, or betterment of existing structures.

The department states that much of the hospital infrastructure, including roads, roofs, plumbing and sewage, electrical, exterior paint, and grounds, has been neglected in the past due to funding limitations. Of the amount requested for 1986–87, the department intends to allocate $4,161,000 for infrastructure repairs, $205,000 for PCB transformer removal, $735,000 for repair of water-damaged areas, and $2,807,000 for other maintenance and repair projects. This would be the first phase of a multi-phase special repair program which could extend from two to five years. The department has provided a list of project priorities and an implementation schedule for some of the multi-phase special repair projects.

Our review indicates that the state hospitals have a large backlog of special repairs projects. The department's listing of project priority for 1986–87 is helpful in understanding the logic behind the proposal. We have not had sufficient time, however, to thoroughly review the large number of projects that the department has proposed. Nor have we been able to determine what the overall magnitude of the special repair problem is in the eight hospitals under the department's jurisdiction and what expenditures would be required to restore the state hospital infrastructure to original functioning levels. Finally, we have not been able to determine the status of preventive maintenance schedules in the state hospitals and feasibility of developing a system for reporting the costs and completion dates of previously budgeted projects. For these reasons, we withhold recommendation on the department's special repair proposal at this time.

Laundry Contract Premature

We recommend that the Legislature restore $41,000 and 57 laundry worker positions at Agnews and Fairview State Hospitals because the proposed contract for laundry services is premature. We further recommend that the Legislature adopt Budget Bill language identical to language contained in the 1985 Budget Act that sets limits on the price which Prison Industries Authority may charge for laundry services.

The budget proposes to phase out 57 laundry positions at Agnews and Fairview State Hospitals and initiate a laundry services contract with the Prison Industries Authority (PIA), for a net savings of $41,000 in 1986–87.

The department recommends contracting with the PIA 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.

The department and PIA have not completed negotiations over the terms of a laundry service contract. The department's budget proposal, however, assumes that the PIA's laundry services will be 19 cents per pound for personal clothing and 17 cents per pound for flatware (linen) and approximately $163 per round trip for transportation costs. The department indicates that it has verbal commitments from the PIA that laundry service will commence for Agnews and Fairview by March 1987.

Background. In the Budget Act of 1985, the department proposed to phase out 105 laundry positions at Lanterman, Napa, and Sonoma State Hospitals and initiate a laundry services contract with the PIA, for a net reduction in the cost of these services amounting to $138,000 in 1985–86. At this time last year, the department expected to begin contract service for Lanterman by October 1985 and for Napa and Sonoma by April 1986. Service for Lanterman and Sonoma is now scheduled to begin by May 1986 and service for Napa is scheduled to begin in July 1986.

When this analysis was written, no contracts had been signed for Lanterman and Sonoma, although they presumably will have to be finalized before May 1986. The department indicates that the contracts should include language giving the hospitals an alternative service option in the event of disruptions in PIA service. The department is not aware of what milestones, including equipment purchases and installation, must be accomplished at the PIA to assure that laundry services will be available by the specified dates. Apparently, the PIA has not provided an implementation schedule; nor has PIA specified exactly where the laundry for the hospitals will be processed in the immediate future.

Since the laundry service was not provided to Lanterman on schedule, no laundry worker positions have actually been eliminated. Laundry positions (105) have, however, been removed from the hospitals' personnel roster, and budgeted funds have been transferred from personal services to operating expenses.

Because (1) the current PIA schedule for delivery of laundry services has not been kept, (2) no laundry contracts have yet been executed, (3) the department has not been provided with a detailed schedule and list of tasks that must be accomplished by the PIA before the Agnews and Fairview laundry services can be processed, and (4) the department has no experience with the quality of PIA laundry services or actual prices, we recommend that the Legislature restore the 57 laundry worker positions and $41,000 to the state hospital budget. This recommendation would (1) delay the initiation of PIA laundry services for Agnews and Fairview by no more than four months (from March to July 1987) and (2) allow the Legislature to assess PIA's costs and quality of service before it eliminates laundry worker positions at any more state hospitals.

Potential for Future Rate Increases. The price currently being discussed by the PIA and the department appears to be below both the hospitals' cost for the same service and its cost of obtaining the services from a private contractor. Once hospitals become dependent on PIA for laundry services, however, they will not be in a good bargaining position to prevent future rate increases. Therefore, we recommend that the Legislature re-adopt language added to the 1985 Budget Act which requires that the contract(s) between the department and PIA for laundry services contain a provision specifying that the price per pound paid by the department in 1986–87 shall not exceed the price the department

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

would pay for the service from a private contractor or more than PIA's cost plus its current markup for net profit, whichever is less. This language is as follows:

"The department or individual state hospitals may enter into contracts with Prison Industries Authority for laundry services, providing that the contracts provide that the department will not be charged a rate per pound which exceeds (1) available commercial laundry rates for the same service or (2) Prison Industries Authority's cost for operating a laundry plus its standard central administrative charge and a net 11.7 percent profit on direct operations costs."

Equipment Proposal Needs Justification

We withhold recommendation on the department's $4,831,000 hospital equipment proposal pending receipt of a mandated report on state hospital equipment.

The budget proposes $4,831,000 in expenditures for hospital equipment, a decrease of $860,000, or 15 percent, below current-year estimated expenditures.

Language in the *Supplemental Report of the 1985 Budget Act* directed the department to submit, in conjunction with its 1986–87 budget submission, a report on the management of the state hospital equipment inventories. When this analysis was written, the report had not been submitted. Without the information contained in the report, we are unable to determine if the department's funding request for equipment is justified. Therefore, we withhold recommendation on the department's equipment request, pending receipt of the report. We further recommend that the department explain during budget hearings why the report was not submitted on time.

Hospital Equipment Expenditure Exceeds Authorization

We recommend that the Legislature adopt Budget Bill language restricting the expenditure flexibility of the state hospitals.

The 1986–87 budget submission indicates that in 1984–85, the hospitals spent $11,928,000 for equipment. *This amount is $5,964,000, or 100 percent, above the original equipment authorization approved by the Legislature for 1984–85.*

The department has not indicated precisely where the funds to finance these unbudgeted expenditures came from or what items were purchased with the additional funds. Nor did the department inform the Department of Finance (DOF) that the hospitals would spend more than the amount budgeted for equipment. As a result, the Legislature was not notified that the Department of Developmental Services diverted $5.9 million from other items of expenditure to the purchase of equipment.

Regardless of whether the money was well spent, this is something that should be of great concern to the Legislature.

It is essential that department budgets accurately reflect the departments' expenditure plans. The Legislature can then review those plans and appropriate funds for services that *it* deems appropriate. Obviously, from time to time circumstances will change, necessitating revisions to a department's expenditure plans. When this happens, the DOF and the Legislature must be informed. Otherwise, the department, rather than the Legislature, makes the decision on what legislatively approved programs and activities are scaled back. It is the clear intent of Section 6.5 of the Budget Act that the Legislature be informed of changes in expenditure plans before the fact, rather than after.

We regard the DDS's failure to provide advance notification of this major change in expenditure plans as a particularly serious breach in the budget process. In order for state hospitals to free-up $5.9 million for equipment purchases, other activities and services obviously had to be reduced. At this point, we do not know whether these activities involved services to patients or something else. The DOF states that (1) it has informed the department of the reporting requirements and (2) does not expect future changes in expenditure plans to go unreported. In our judgment, however, this is not good enough. Accordingly, we recommend that the Legislature adopt Budget Bill language which (1) requires the department to notify the DOF of significant changes in the expenditure plans of the state hospitals, (2) requires the DOF to approve budget transfers in excess of 10 percent, and (3) requires that the Legislature be notified of all budget transfers in excess of 20 percent. Budget Bill language consistent with our recommendation is:

"The Director of Developmental Services shall notify the Department of Finance of significant changes in the plan of expenditures for state hospitals for personnel services or operating expenses. For purposes of this reporting requirement, expenditures that are 10 percent above or below the amounts shown in the summary by object in the Governor's Budget shall be deemed significant as shall any other expenditure changes that the Director deems to have policy significance. The Director of Finance may authorize the augmentation and reduction of any line of the summary by object for state hospital personnel services or operating expenses in excess of 10 percent.

"Any transfer in excess of 20 percent pursuant to this section may be authorized not sooner than 30 days after notification in writing of the necessity therefor is provided to the chairperson of the committee in each house which considers appropriations and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine."

Report on Future Use of State Hospitals Is Late

We recommend that the department advise the Legislature why its report on the long-term plan for state hospitals is late and when the report will be released.

Language contained in the *Supplemental Report to the 1985 Budget Act* directed the department to submit a report to the Legislature by November 15, 1985, on its long-term plan for state hospitals. As of mid-February 1986, the report had not been submitted.

The report is to address (1) the number and types of core populations that should be served in state hospitals, (2) the number and types of state hospital clients that should be transferred to regional center programs, (3) the costs and timeframes for serving the transferred populations through regional center programs, and (4) the number of remodeled state hospital beds that would be available to the Department of Mental Health. The language also directs the DDS to evaluate the option of having the state build and operate some community facilities as an alternative to state hospital services and describe the logistics involved in the closing of a hospital.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

The supplemental report asks the department to address issues that are important to the Legislature in setting state policy regarding the appropriate use of state hospitals for developmentally disabled clients. Therefore, we recommend that the department advise the Legislature during budget hearings why its report is late and when the report will be released.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY

Item 4300-301 from the General Fund, Special Account for Capital Outlay — Budget p. HW 97

Requested 1986–87	$13,537,000
Recommended approval	1,507,000
Recommended reduction	306,000
Recommendation pending	11,724,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. Camarillo State Hospital. Withhold recommendation on three projects, totaling $11,337,000, pending receipt of additional information.	817
2. Project Schedules. Recommend the Department of Developmental Services and Office of State Architect submit a report to the Legislature (1) explaining why eight out of nine projects funded last year are behind schedule, (2) describing their plans to expedite the projects and (3) supplying revised schedules for each project.	818
3. Camarillo State Hospital. Withhold recommendation on preliminary plans ($387,000) for fire/life safety and environmental improvements for Units 18, 19, 30–33, pending receipt of project information and schedules for other projects at Camarillo State Hospital.	819
4. ***Porterville Kitchen. Reduce Item 4300-301-036(6) by $23,000.*** Recommend that the Legislature delete this project because it is not justified.	820
5. ***Sonoma Generator. Reduce Item 4200-301-036(7) by $26,000.*** Recommend that the Legislature delete this project because it has already funded all improvements necessary for full compliance with licensing and fire and life safety code requirements.	820
6. ***Minor Projects. Reduce Item 4300-301-036(1) by $257,000.*** Recommend the Legislature delete four projects which are either maintenance items, unjustified or have been funded.	821
7. Minor Projects. Recommend adoption of supplemental	822

report language directing the department to study protective wall coverings.

8. Budget Language. Recommend the Legislature amend Budget Bill language to specify that any unencumbered funds transferred to the Department of Mental Health must be spent for the original purpose of the appropriation. Further recommend that, prior to budget hearings, the Department of Finance submit a list to the Legislature identifying all funds and projects that would be subject to transfer under this provison. 822

ANALYSIS AND RECOMMENDATIONS

The budget proposes $13,537,000 for the Department of Developmental Services' Capital Outlay program in 1986–87. This includes funds for six major projects and 27 minor projects ($200,000 or less per project). The Department's proposal for major projects and our recommendations are summarized below in Table 1.

Table 1
Department of Developmental Services
1986–87 Major Capital Outlay Program
Item 4300-301-036
(dollars in thousands)

Sub-Item	*Project Title*	*Location*	*Phase*[a]	*Budget Bill amount*	*Analyst's Recommendation*	*Estimated Future Cost*[b]
(2)	Construct Children's Units	Camarillo	w,c	$3,301	Pending	—
(3)	Swing Space	Camarillo	c	388	Pending	—
(4)	Fire, Life Safety and Environmental Improvement, Units 11–15	Camarillo	w,c	7,648	Pending	—
(5)	Fire, Life Safety and Environmental Improvement, Units 18, 19, 30–33	Camarillo	p	387	Pending	$6,746
(6)	Remodel Main Kitchen	Porterville	p,w	23	—	218
(7)	Install Emergency Generator	Sonoma	p,w	26	—	709
	Totals			$11,773	Pending	$7,673

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

Three Projects at Camarillo State Hospital Are Significantly Behind Schedule

We withhold recommendation on three projects at Camarillo State Hospital, Items 4300-301-036(2), (3) and (4), pending receipt of preliminary plans and detailed cost estimates.

The budget proposes working drawing and construction funds for (1) new children's units ($3,301,000), (2) fire and life safety and environmental improvements (FLSEI) to units 11–15 ($7,648,000) and (3) construction funds to provide minimal fire and life safety improvements for eight units to be used as "swing space" to house clients during remodeling of the various client areas ($388,000).

The Legislature already has appropriated planning funds for these projects. *Each project, however, is significantly behind schedule* and no information is available to substantiate the department's request for additional funds.

Children's Units. The Legislature appropriated $232,000 in the 1984

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

Budget Act to (1) undertake a life cycle cost analysis comparing the cost of remodeling with the cost of new construction and (2) develop preliminary plans for the cost-effective solution. The Department of Finance was required to submit the approved cost analysis to the Joint Legislative Budget Committee at least 30 days before starting preliminary plans.

The initial version of the life-cycle analysis did not adequately address the Legislature's concerns. At the time this *Analysis* was prepared, the department was reanalyzing the life-cycle cost analysis it had submitted. Consequently, although the budget requests funds to construct a new facility, the cost analysis needed for making this decision is not complete. Moreover, the preliminary plans for this project are not available. According to the Office of State Architect (OSA), as of January 15, 1986 there was *no* schedule for starting or completing these plans.

Under the circumstances, we have no basis to advise the Legislature regarding the need for the $3,301,000. We urge the department to expedite completion of the cost analysis and submit it to the Legislature so that preliminary plans, based on the most cost-effective alternative, can be developed prior to budget hearings. Pending receipt of the life-cycle cost analysis, preliminary plans and a detailed cost estimate, we withhold recommendation on this proposal.

Swing Space and FLSEI for Units 11–15. The *Supplemental Report of the 1985 Budget Act* expressed the Legislature's intent that preliminary plans for Swing Space modifications and the FLSEI to Units 11–15 be completed prior to preparation of the 1986–87 Budget. The OSA reported to the Legislature, on January 15, 1986, that the plans for the Swing Space were completed in November 1985, but that the plans for units 11–15 would not be completed until April 1986. At the time this analysis was prepared, however, we had not received the preliminary plans for either project. Consequently, we have no basis to evaluate the proposed appropriation. Accordingly, we withhold recommendation on these projects and urge the department and OSA to expedite completion of the preliminary plans and detailed cost estimates so that the necessary information will be available prior to budget hearings.

DDS and OSA Should Explain the Delays

We recommend that prior to budget hearings, the department and the OSA submit a report to the Legislature (1) explaining why eight out of nine timelines outlined in the Supplemental Report of the 1985 Budget Act were not met, (2) describing their plans for expediting the projects and (3) setting forth revised schedules.

The *Supplemental Report of the 1985 Budget Act* expressed the Legislature's intent that eight projects be carried out in accordance with the timelines shown in Table 2.

As Table 2 shows, only one of the eight projects is on schedule. The other seven have slipped *at least* two months. In addition, the DDS was also to meet timelines for three projects at Napa State Hospital, a state hospital for the mentally ill. (The Governor's Budget indicates that responsibility for Napa State Hospital is to be transferred in 1986–87 to the Department of Mental Health—DMH). As we discuss in our analysis of the DMH capital outlay program, these three projects are also substantially behind schedule.

Table 2
Department of Developmental Services
Timeline for Projects as
Stated in the Supplemental Report of the 1985 Budget Act

Project/Hospital	*Timeline*	*Status*
1. Replace Boilers, Agnews	Preliminary plans to be completed prior to preparation of the 1986–87 budget.	Not Complete
2. Swing Space, Camarillo	Preliminary plans to be completed prior to preparation of the 1986–87 budget.	Not Complete
3. FLSEI/Units 11–15, Camarillo	Preliminary plans to be completed prior to preparation of the 1986–87 budget.	Not Complete
4. Replace Boilers, Camarillo	Preliminary plans to be completed prior to preparation of the 1986–87 budget.	Not Complete
5. Upgrade Electrical System, Fairview	To be advertized for construction no later than October 1985.	On Schedule
6. Water Systems Study, Fairview	Study to be sent to Legislature no later than December 1, 1985.	Study not started
7. Install Chiller, Lanterman	Working drawings to be completed by December 1, 1985.	Not Complete
8. FLSEI/Cottage G, Stockton	Working drawings to be completed by November 15, 1985.	Not Complete

The status of the FLSEI project for Stockton Cottage G is of particular concern. This project is at least six and one-half months behind schedule. Thus, improvements to the Stockton building will not start until the 1986–87 fiscal year even though construction funds were appropriated in the 1985 Budget Act.

We recommend that the DDS and the OSA submit a report detailing why each project is behind schedule and what steps are being taken to expedite the projects, and also provide a revised schedule for each project.

New Camarillo FLSEI Project

We withhold recommendation on Item 4300-301-036(5), preliminary plans for FLSEI for Units 18, 19, 30–33 at Camarillo State Hospital, pending receipt of a cost estimate, schematic drawings and timelines for remodeling Camarillo Swing space and the FLSEI project for Units 11–15.

The budget provides $387,000 for preliminary plans to remodel units 18, 19 and 30–33 to meet current fire and life safety code requirements and licensing standards. Units 18 and 19 house adolescents. Units 30–32 house adults with acute psychiatric disorders. Unit 33 is an adult day treatment activity center.

The need to remodel these units is clear: the units were constructed 40–50 years ago when design concepts for housing the mentally ill were based upon a custodial care model, with little concern for patient privacy, a home-like atomosphere or active training and therapy programs. The proposed remodeling will rectify these deficiencies—as well as provide patients and staff with increased protection from fire.

Unfortunately, we are unable to make a recommendation to the Legislature on the need for the requested amount because (1) we do not have a cost estimate from the Office of State Architect, (2) the *department's* cost estimate for preliminary plans is $97,000 less than the proposed Budget Bill appropriation and (3) the delays in other projects at Camarillo

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

may delay this project and the need for any funds in the budget year. Consequently, we withhold recommendation on this project, pending receipt of an Office of State Architect cost estimate, schematic drawings and a timeline for construction for this project along with all other projects at Camarillo State Hospital.

Porterville Kitchen

We recommend the Legislature delete Item 4300-301-036(6), preliminary plans and working drawings for remodeling the kitchen at Porterville State Hospital, because the project is not adequately justified, for a reduction of $23,000 (future savings: $218,000).

The budget provides $23,000 for preliminary plans and working drawings for remodeling the Porterville Kitchen. The department indicates that the kitchen lacks sufficient refrigeration, freezer, and storage space, and that extreme temperatures in the main kitchen necessitates air conditioning.

The department, however, has not provided sufficient information to establish the need for or cost of this project. The department has not submitted an OSA cost estimate or any documentation of the kitchen temperature or the capacity of the current refrigeration/freezer units. Consequently, we recommend that the Legislature delete this item.

Sonoma Generator

We recommend that the Legislature delete Item 4300-301-036(7), preliminary plans and working drawings for a new emergency generator at Sonoma State Hospital, because the Legislature has funded all electrical improvements necessary to meet accreditation and licensing requirements, for a savings of $26,000 (future savings: $709,000).

The budget provides $26,000 for preliminary plans and working drawings for installation of two 1000 KW emergency generators at Sonoma State Hospital. This would supplement the hospital's existing 2,400 KW emergency generator capacity. Based on 1984 information (the latest capacity information provided), the existing emergency systems allows the hospital to operate at nearly *75 percent of its total electrical need.*

The department indicates that it needs the additional emergency power capacity to meet Title 24, Title 22 and licensing requirements. As documentation, the department submitted a 1982 licensing report which cites the hospital's emergency power system, along with over 38 other nonrelated items. The citation reads "Facility has emergency power system, however, system breaks down when all units are functional at the same time." The citation does not explicitly require additional electrical capacity—only that the system does "not break down".

The electric code specifies that emergency electrical systems in hospital facilities must serve those circuits essential to life safety and critical patient care. Consequently, it is not required that the entire hospital be connected to the emergency electrical system. The department has not provided any information identifying those circuits which are served by the existing emergency generators and whether all presently connected systems are essential to life safety and critical patient care.

In addition, the size of the proposed emergency electrical system is larger than the hospital's *total* electrical demand. Based on the 1984 electrical information, the existing emergency system coupled with the proposed 2,000 KW generator set, would provide *1,100 KW more* than is needed for the entire hospital.

Finally, we note that Sonoma State Hospital has been remodeled to meet fire/life safety and environmental improvements. These improvements were supposed to bring the hospital into compliance with *all* fire and life safety, accreditation and licensing requirements, including those related to emergency electrical service. The Legislature appropriated funds on this basis. The department has submitted no information to establish that the hospital's electrical generating capacity does not meet these requirements.

Under these circumstances, we recommend that the Legislature delete Item 4300-301-036(7), for a savings of $26,000 in 1986–87 and a future savings of $709,000.

Minor Projects

The budget proposes $1,764,000 for 27 minor capital outlay ($200,000 and less per project) projects. As Table 3 shows, 12 of these projects, totaling $956,000, are for improving handicapped accessibility to the hospital facilities, 13 are for a variety of building or play area improvements and two are for the protection of walls in hallways.

Table 3
Department of Developmental Services
1986–87 Minor Capital Outlay Program
Item 4300-301-036
(dollars in thousands)

Number	*Project Title*	*Location*	*Budget Bill Amount*	*Analyst's Recommendation*
12	Handicapped Accessibility	Various	$956	$956
2	Construct Walkways	Various	24	24
3	Recreational Area Improvements	Various	157	157
1	Receiving and Treatment Building	Agnews	198	198
1	Install Fire Alarm System	Agnews	10	10
1	Install Floor Drains	Stockton	8	8
1	Install Handrails in Corridors	Stockton	16	16
1	Install Handrails in Units—Phase I	Lanterman	38	38
1	Fiberglass Wainscot—Phase I	Sonoma	100	100
1	Install Emergency Egress Lighting	Porterville	37	—
1	Install Smoke Detectors	Stockton	99	—
1	Replace Steel Doors	Fairview	77	—
1	Trash Container Enclosures	Fairview	44	—
	Totals		$1,764	$1,507

Four Projects Are Special Repairs, Not Justified or Already Funded

We recommend the Legislature delete funds for four projects totaling $257,000 because the projects are either (1) a maintenance item which should properly be funded, in priority, from the department's support budget, (2) insufficiently justified, or (3) already funded as part of the hospital's overall fire and life safety and environmental improvements.

We recommend that the Legislature delete funds for two projects—Install Emergency Egress Lighting, Porterville ($37,000) and Install Smoke Detectors, Stockton ($99,000)—because the Legislature has al-

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

ready funded all projects necessary for fire and life safety at these hospitals. We recommend that the Legislature delete funds to replace steel doors with wooden doors at Fairview ($77,000) because this is a maintenance project which should be funded from the department's support budget. Finally, we recommend that the Legislature delete funds to enclose the trash containers at Fairview ($44,000) because the department has provided insufficient information to establish the need for or cost of this project.

Study Needed to Evaluate Projects to Protect Walls

We recommend that the Legislature adopt supplemental language directing the DDS to prepare a report on protective wall coverings.

The walls of hallways in hospitals for the developmentally disabled continually need to be sanded and repainted to cover dents and scrapes from wheelchairs and gurneys. The department proposes two projects as an initial phase of a hospital plan to protect these walls. The initial proposal provides for the installation of (1) fiberglass wainscotting at Sonoma State Hospital ($100,000) and (2) two levels of handrails at Lanterman State Hospital $38,000).

Based on our site visits, it is apparent that wall protection is needed. Providing this improvement throughout the state hospital system, however, will be costly. In view of this, prior to embarking on a statewide program, the department needs to be sure that the improvements will provide the necessary protection in a cost-effective way. Thus, the department should evaluate the cost-effectiveness of the two alternatives proposed, along with other alternatives such as installing rubber bumpers on wheelchairs/gurneys and adding no protection but providing regular maintenance of patching/painting. To assure that this evaluation is completed, we recommend that the Legislature adopt the following supplemental report language:

> "The Director of Department of Developmental Services shall submit a report to the Joint Legislative Budget Committee no later than January 1, 1987 which evaluates the cost-benefit of protecting hallway walls in state hospitals on a statewide basis. The department shall evaluate, at a minimum, (1) fiberglass wainscotting, (2) double handrails and (3) no protective covering with regular maintenance of patching/painting and (4) rubber bumpers on wheelchairs/gurneys. The report shall include (1) the estimated cost to undertake the most cost-effective solution at each hospital and (2) a schedule for making the improvements.

Budget Language

We recommend that the Legislature amend the proposed budget language to specify that any unencumbered funds transferred to the Department of Mental Health must be spent for the original purpose of the appropriation.

We recommend further, that prior to budget hearings, the Department of Finance submit a list to the Legislature identifying all funds and projects that would be transferred under this provision.

The budget indicates that the Department of Mental Health will assume responsibility for the operations of Napa State Hospital on July 1, 1986. The Budget Bill includes language under this item (Item 4300-301-036) permitting the Department of Finance to transfer any unencumbered balances available for Napa State Hospital capital outlay projects to the Department of Mental Health without prior notification to or review by the Legislature.

The language, as proposed, would appear to permit the Department of Mental Health to spend these funds for any purpose the department and the Department of Finance desire. Consequently, we recommend that the Legislature amend the language to specify that any unencumbered funds transferred to the Department of Mental Health must be used for the purpose originally intended by the Legislature.

Moreover, neither the Department of Developmental Services nor the Department of Finance has identified the projects or associated funds affected by this provision. We, therefore, recommend that prior to budget hearings, the Department of Finance submit a list to the Legislature identifying all projects and funds that would be subject to transfer.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal committees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

Health and Welfare Agency

DEPARTMENT OF MENTAL HEALTH

Item 4440 from the General Fund — Budget p. HW 100

Requested 1986–87	$928,252,000
Estimated 1985–86	835,858,000
Actual 1984–85	691,928,000
Requested increase $92,394,000 (+11.1 percent)	
Total recommended reduction	651,000
Recommendation pending	30,802,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4440-001-001—Department support	General	$23,844,000
4440-001-036—Department support	SAFCO	500,000
4440-001-890—Department support	Federal	(543,000)
4440-016-001—Department support	General	21,529,000
4440-011-001—State hospitals	General	290,914,000
4440-011-036—State hospitals	SAFCO	3,906,000
4440-101-001—Local assistance	General	498,851,000
4440-101-890—Local assistance	Federal	(16,140,000)
Reimbursements	—	88,708,000
Total		$928,252,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

	Analysis page
1. Client Data System and State Hospital Automation Project. Withhold recommendation on $498,000, pending review of the department's request for proposal.	828
2. Office Automation. Withhold recommendation on $162,000, pending review of the department's feasibility study report.	829
3. Fifteen Million Dollar Augmentation. Recommend that prior to budget hearings, the department provide the Legislature with an analysis of the extent to which three years' worth of augmentations have reduced funding inequities between counties.	831
4. Targeted Supplement Fund. Recommend that the Legislature create a new item in the Budget Bill for the Targeted Supplement Fund.	832
5. 24-Hour Alternative Beds. Recommend that prior to budget hearings, the department submit a report which details (a) the process it used to determine what the annual cost for this program should be and (b) the specific criteria it used to approve/disapprove county proposals.	833
6. Target Populations. Withhold recommendation on $5 million because the department has not provided the Legislature with any information on how the funds will be used.	834
7. Independent Performance Review: Homeless Program. Recommend adoption of Budget Bill language directing the department to commission a $250,000 independent performance review of the homeless program.	835
8. Homeless Program Data. Recommend that by April 1, 1986, the department estimate what it would cost to (a) amend the Cost Reporting and Data Collection System and (b) report the data through the Client Data System.	836
9. Rate Supplement Funding. Recommend that during budget hearings, the department explain how it intends to fund the rate supplement program in 1986–87.	837
10. Rate Supplement Item Identification. Recommend that the Legislature amend the Budget Bill to (a) identify the rate supplement program as a distinct subitem and (b) control the transfer of funds between subitems.	839
11. Independent Performance Review: Rate Supplement Program. Recommend adoption of Budget Bill language directing the department to commission an independent performance review of the rate supplement program.	839
12. ***Sonoma County Skilled Nursing Facility. Reduce Item 4440-011-001 by $540,000.*** Recommend reduction because the department has not justified the development of a new regional 24-hour subacute skilled nursing facility. Further recommend that the Legislature transfer $660,000 from local assistance to the state hospitals.	840
13. AIDS Mental Health Project. Recommend that prior to	842

budget hearings, the department provide the Legislature with a written status report on the AIDS mental health project.

14. ***Medical Screening. Reduce Item 4440-101-001 by $67,000.*** Recommend reduction because the project for which these funds were appropriated has been completed. 842
15. Mentally Disordered Offender Program. Withhold recommendation on $19,047,000 requested to fund the start-up and implementation of the program, pending resolution of issues affecting program needs and cost estimates. Recommend that the department present a report detailing the ramifications of implementing the mentally disordered offender program. 848
16. Population Adjustments. Withhold recommendation on certain population-related staffing adjustments, pending review by the Legislature of the mentally disordered offender program. 851
17. Treatment Staffing Augmentation. Withhold recommendation on $2,238,000 requested for 264 proposed new positions, pending further review of the proposal. 852
18. ***Equipment Request. Reduce Item 4440-011-001 by $44,000.*** Recommend reduction to correct for overbudgeting. Withhold recommendation on a proposed $706,000 augmentation to fund equipment for the state hospitals, pending resolution of several inconsistencies and questionable cost estimates. 853
19. Special Repairs. Withhold recommendation on proposed $1,650,000 augmentation for special repairs, pending receipt from the department of a five-year plan. 854
20. State Hospital Accreditation. Withhold recommendation on proposed $341,000 contract with the Joint Commission on Accreditation of Hospitals, pending receipt from the department of updated and detailed cost estimates. 855
21. Treatment Evaluation Teams. Recommend that the department (a) revise the composition of the state hospital evaluation team to conform with requirements of the *Supplemental Report of the 1985 Budget Act,* and (b) provide the Legislature with revised costs estimates for the evaluation of all five state hospitals. 856

GENERAL PROGRAM STATEMENT

The Department of Mental Health (DMH) 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 4,652.4 authorized positions in the current year.

DEPARTMENT OF MENTAL HEALTH—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes *total* expenditures of $944,935,000 (all funds) for the support of the department's activities in 1986–87. This is an increase of $87,691,000, or 10.2 percent, above estimated current-year expenditures.

Proposed *General Fund* expenditures for support of the department and its programs are $835,138,000, which is $79,063,000, or 10.5 percent, above the estimated level of General Fund expenditures in the current year. Table 1, provides a summary of the department's budget for the three-year period ending June 30, 1987.

The proposed General Fund increase of $79 million primarily reflects the following increases:

- $25.75 million for local mental health programs.
- $9.2 million for a 2 percent cost-of-living adjustment to local mental health programs.
- $19 million for first-year funding of the mentally disordered offender program.
- $5.2 million appropriation to provide enhanced services for the conditional release program.
- $4.3 million appropriation to continue the conditional release program at the current-year level.
- $2.2 million for phase III of the state hospital model treatment programs.
- $10.4 million reflecting the transfer of Napa State Hospital from the Department of Developmental Services (DDS) to the DMH.

Table 1
Department of Mental Health
Budget Summary
1984–85 through 1986–87
(dollars in thousands)

Expenditures	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
Local assistance	$419,030	$531,340	$567,598	6.8%
State hospital services	259,142	295,080	330,119	11.9
Departmental administration	28,901	30,824	47,218	53.2 [a]
Reimbursements	62,121	79,068	88,708	12.2
Totals	$707,073	$857,244	$944,935	10.2%
Funding source				
General Fund	*$629,907*	*$756,075*	*$835,138*	*10.5%*
Special Account for Capital Outlay	—	*715*	*4,406*	*516.0*
Federal Trust Fund	*15,045*	*21,386*	*16,683*	*−22.0*
Personnel-years				
Department support	497.0	371.1	285.6	−23.0%
State hospital services	3,771.8	4,337.9	6,633.4	52.9 [a]
Totals	4,268.8	4,709.0	6,919.0	46.9%

[a] This increase is due to the proposed transfer of administration of Napa State Hospital from the Department of Developmental Services to the Department of Mental Health.

The budget does not include full funding for merit salary adjustments (MSAs) or inflation adjustments to operating expenses and equipment. While the budget seeks $987,000 for selected operating expense increases directly related to patient care in the state hospitals, we estimate that an additional $742,000 would be necessary in order to adjust the remaining operating expense and equipment items for inflation. The department states that due to the substantial number of employees who are hired at, or near, the top of the salary range, the budget provides adequate funding for MSAs in 1986–87.

ANALYSIS AND RECOMMENDATIONS

A. DEPARTMENT SUPPORT

The budget proposes total expenditures of $47,218,000 for support of the Department of Mental Health in 1986–87. This is an increase of $16,394,000, or 53 percent, above estimated current-year expenditures. The increase is due primarily to increases in external consulting and professional services requested for the conditional release program and the mentally disordered offender program.

Table 2 shows five-year trends in expenditures, funding sources, and authorized positions for departmental support.

Budget Char.ges and Adjustments. Table 3 shows the changes in the department's budget proposed for 1986–87. The major changes reflect increased funds for (1) the mentally disordered offender program ($8.7 million), (2) the conditional release program ($5.2 million), (3) mental health research ($1 million), (4) start-up funding for the state hospital automation project ($0.5 million), and (5) a proposed contract with a construction management firm ($0.5 million).

The budget for 1986–87 shows a special adjustment reflecting a transfer of $3,549,000 from local assistance to department support. This transfer reflects a delay on the part of Los Angeles and Monterey Counties in assuming the functions now performed by the Office of Mental Health Social Services (OMHSS). Both counties intend to assume responsibility for the OMHSS functions in 1986–87 as soon as various administrative and operational issues are resolved.

Table 2
Department of Mental Health
Department Support
Expenditures and Funding Source
1982–83 through 1986–87
(dollars in thousands)

	Expenditures				*Source of Funds*				
	Salaries	*Benefits*	*Operating Expenses*	*Totals*	*General Fund*	*Reimburse-ments*	*Federal Funds*	*SAFCO*	*Authorized Positions*
1982–83	$15,996	$4,287	$7,531	$27,814	$24,608	$1,990	$1,216	—	650.5
1983–84	15,367	5,142	8,545	28,963	23,443	4,173	1,347	—	601.5
1984–85	15,431	4,868	8,602	28,901	23,835	3,881	1,185	—	525.0
1985–86	12,769	3,775	14,280	30,824	28,707	1,171	946	—	428.8
1986–87	11,674	3,401	32,143	47,218	45,373	802	453	$500	357.2
Change from 1985–86									
Amount	−$1,095	−$374	$17,863	$16,394	$16,666	−$369	−$403	$500	−71.6
Percent	−8.6%	−9.9%	125.1%	53.2%	58.1%	−31.5%	−42.6%	NMF	−16.7%

DEPARTMENT OF MENTAL HEALTH—Continued

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

	General Fund	*All Funds*
1985–86 expenditures (Budget Act)	$23,399	$24,699
Adjustments:		
1. 1985–86 salary and benefit increases	877	956
2. Transfer from Item 4440-101-001, Office of Mental Health Social Services (OMHSS)	3,549	3,943
3. Reappropriation from local assistance for research	1,000	1,000
4. Adjustment to salary schedule	−417	−417
5. Transfer from state hospitals for conditional release program	300	300
6. Adjustments in federal funds		
a. Refugee assistance funds	—	209
b. Community Support Services Project (CSSP)	—	109
c. Carry-over of 1985–86 CSSP funds	—	25
d. Federal disaster grant funds	—	1
7. Adjustment for rounding	−1	−1
1985–86 expenditures (revised)	$28,707	$30,824
Baseline adjustments, 1986–87:		
1. 1986–87 salary and benefit increases	$526	$531
2. Transfer OMHSS to Item 4440-101-001	−3,549	−3,943
3. Reduction of one-time research funds	−1,000	−1,000
4. Adjustment to salary schedule	100	98
5. Annualize appropriation for conditional release program	4,293	4,293
6. Reductions in one-time federal funds		
a. Reduction of CSSP funds	—	−134
b. Refugee assistance funds	—	−209
c. Federal disaster grant funds	—	−1
7. Brain-impaired adults program (Ch 1658/84)	200	200
8. Transfer of facilities planning positions	129	129
9. Reduction of one-time collective bargaining	−59	−97
Program change proposals:		
1. Mentally disordered offender program	8,655	8,655
2. Conditional release program	5,177	5,177
3. Research	1,000	1,000
4. Construction management firm contract	—	500
5. State hospital automation project	498	498
6. JCAH consultation and survey	341	341
7. Office automation for DMH headquarters	162	162
8. Napa transfer from DDS to DMH	77	77
9. Hospital treatment evaluation teams	64	64
10. Brain-impaired adults program	53	53
1986–87 expenditures (proposed)	$45,374	$47,218
Change from 1985–86 (revised)		
Amount	$16,667	$16,394
Percent	58.1%	53.2%

Client Data System and State Hospital Automation Project

We withhold recommendation on the $498,000 requested for the client data system and the state hospital automation project pending the Department of General Services' review of the department's request for proposals for this automation project.

The budget proposes $498,000 from the General Fund for the first phase of a three-phase automation project. The funds will be used to contract for consulting and professional services and to acquire hardware and software in connection with a client data system and state hospital automation project.

At the time this analysis was prepared, the Department of General Services (DGS) had requested the Department of Mental Health to submit a revised request for proposals (RFP). We have been informed that the DGS was concerned with various items in the RFP which did not conform with the feasibility study report (FSR) approved by the Office of Information Technology (OIT). We understand that the department has submitted a revised RFP.

We cannot recommend approval of this proposal until the DGS approves the department's RFP. Accordingly, we withhold recommendation on the $498,000 requested for the client data system and the state hospital automation project pending approval by the DGS of the department's RFP.

Office Automation

We withhold recommendation on the $162,000 requested for office automation, pending review of the department's feasibility study report covering automation of its headquarters.

The budget proposes $162,000 for the first phase of a three-phase plan designed to automate departmental headquarters. The funds will be used to acquire both software and hardware.

At the time this analysis was prepared, the department had not completed the feasibility study report (FSR), which the State Administrative Manual requires for all automation projects of this type. Therefore, we withhold recommendation on the $162,000 requested for office automation, pending receipt and review of the FSR.

Conditional Release Program

We recommend approval.

The budget proposes a $5,177,000 General Fund augmentation to the conditional release program in order to enhance the current level of services provided to judicially committed persons in the community.

Background. Effective January 1986, Ch 1327/85 (AB 2381) makes the state responsible for the outpatient supervision and treatment of individuals who have been found not guilty by reason of insanity or incompetent to stand trial, as well as individuals classified as mentally disordered sex offenders who are discharged from a state hospital.

The department indicates that the levels of day treatment, day care, inpatient services, and drug screening originally planned for the conditional release program are inadequate. The department states that the judicially committed population in the community has a higher level of illness than was initially anticipated. Accordingly, higher levels of day treatment and care are required.

The department also indicates that the original program proposal did not include funding to reimburse counties for the costs associated with statutorily mandated hearing and treatment costs. Current law requires the state to pay for the judicial hearing costs and the cost of treatment during the hearings. The budget material provided by the department itemizes these costs.

We have reviewed the department's proposal and concur with the department's cost estimates for enhancing the current level of services and

DEPARTMENT OF MENTAL HEALTH—Continued

for reimbursing the counties to fund statutorily mandated hearing and treatment costs. Accordingly, we recommend approval of the request for the conditional release program. We will continue to monitor the progress and development of this program to insure that budgeted caseload and levels of treatment are consistent with program operations.

Mental Health Research

We recommend approval.

The budget proposes $1 million to fund mental health research projects in response to Ch 1286/85 (AB 2541). This augmentation will be used to continue funding in 1986–87 for research projects that began in 1985–86. The department indicates that 30 proposals have been submitted in response to its request for proposals which was issued in October 1985. The department currently is reviewing the proposals and expects to award grants and sign contracts soon. The department anticipates that of the $1 million appropriated for 1985–86, a portion of the funds will be spent in the current year, and that the unexpended portion will be committed for the remaining period of time covered by the contracts.

The department's proposal is consistent with legislative intent. We will monitor the progress and development of mental health research to insure that funds are being utilized effectively.

B. LOCAL MENTAL HEALTH PROGRAMS

The budget proposes an appropriation of $498,851,000 from the General Fund for assistance to local mental health programs in 1986–87. This is an increase of $40,744,000, or 8.9 percent, above estimated current-year expenditures. Total expenditures for local mental health programs in 1986–87, including expenditures from reimbursements and federal funds, are proposed at $567,598,000, which is $36,258,000, or 6.8 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
1984–85 through 1986–87
(dollars in thousands)

	Actual 1984–85	Est. 1985–86	Prop. 1986–87	Change from 1985–86 Amount	Change from 1985–86 Percent
General Fund	$364,042	$458,107	$498,851[a]	$40,744	8.9%
Reimbursements	41,128	52,793	52,607	−186	−0.4%
Federal funds	13,860	20,440	16,140	−4,300	−21.0%
Totals	$419,030	$531,340	$567,598	$36,358	6.8%

[a] Does not include $67,000 of unexpended funds from Ch 208/82. Item 4440-490-001, Budget Act of 1982, directed that these funds be carried over, without regard to fiscal year, until expended.

Budget Changes. Table 5 shows the changes proposed for 1986–87 in the department's budget for local mental health programs. The table also shows changes to the enacted budget for these programs, the largest of which is an $11.5 million increase in Short-Doyle Medi-Cal reimbursements. This increase is due to an increase in the number of clients who receive mental health services and are eligible for Medi-Cal.

The major changes proposed for 1986–87 include (1) a 2 percent cost-of-living increase ($9.2 million), (2) an augmentation for local mental health programs ($25.7 million), (3) a rate adjustment for the rate supplement program ($2.6 million), and (4) a proposal to fund a new skilled nursing facility in Sonoma County ($1.2 million).

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

	General Fund	*All Funds*
1985–86 expenditures (Budget Act)	$460,056	$517,351
Adjustments:		
1. Transfer of Office of Mental Health Social Services (OMHSS) from Los Angeles and Monterey Counties to support item	−3,549	−3,549
2. Increased Short-Doyle Medi-Cal caseload	—	11,452
3. One-time appropriations		
a. Emergency services for Santa Clara and Santa Cruz	—	12
b. Ch 1274/85—assessment of minors	1,600	1,600
c. Ch 1440/85—Sacramento County capital outlay	—	4,300
d. Primary prevention funds	—	174
1985–86 expenditures (revised)	$458,107	$531,340
Baseline adjustments, 1986–87:		
1. Transfer of OMHSS to Los Angeles and Monterey Counties	$3,549	$3,549
2. Elimination of one-time appropriations	−1,600	−6,086
3. Two percent cost-of-living adjustment	9,201	9,201
Program change proposals:		
1. Local assistance augmentation	25,750	25,750
2. Residential care rate supplement	2,644	2,644
3. New Sonoma County 24-hour subacute facility		
a. Augmentation	200	200
b. Transfer of funds from state hospitals	1,000	1,000
1986–87 expenditures (proposed)	$498,851	$567,598
Change from 1985–86 (revised)		
Amount	$40,744	$36,258
Percent	8.9%	6.8%

Local Assistance Augmentation

Background. The budget proposes to increase the General Fund appropriation for operation of county mental health programs by $25,750,000, or 6.4 percent, in 1986–87. This augmentation contains several distinct components. Our analysis will address each component separately.

Fifteen Million Dollar Equity Augmentation Proposed

We recommend approval. We further recommend that prior to budget hearings, the department provide the Legislature with an analysis of the extent to which three years of augmentations have reduced funding inequities between counties.

The budget requests an augmentation of $15 million in 1986–87 as the third phase of a three-year effort to promote the "equitable distribution" of local assistance funds among the state's 58 counties.

In 1984–85 and 1985–86, the state provided substantial "equity augmen-

DEPARTMENT OF MENTAL HEALTH—Continued

tations" for county mental health programs. These augmentations are intended to bring the per-capita amounts received by county mental health programs more into line with one another. This augmentation brings the counties closer to equity, thereby achieving the Legislature's goal.

We recommend that prior to budget hearings, the department provide the Legislature with an analysis and county-specific data showing the impact that these equity augmentations have had on the distribution of state funds. Specifically, the department should provide (1) a comparison of per-capita county allocations before the 1984–85 equity augmentations and county allocations after the 1986–87 equity augmentations, (2) an estimate of the number of new clients served in county mental health programs as a result of the augmentations, and (3) the amount of money that would be required to bring all counties up to what the department considers to be their "fair share" of the total available for local mental health programs' definition of equity.

"Targeted Supplement Fund" Should Be Appropriated in a Separate Item

We recommend that the Legislature create a new item in the Budget Bill and appropriate money for the Targeted Supplement Fund in this item with language limiting the transfer of funds.

The budget proposes a total of $30,200,000 for services that will be funded through the Targeted Supplement Fund. This amount is an undistinguishable part of the $498.9 million appropriation in this Budget Bill for local mental health program services.

Background. Chapter 1286, Statutes of 1985 (AB 2541), together with the Budget Act of 1985, created in the State Treasury the Targeted Supplement Fund. The fund is intended to provide services to priority populations specified in Welfare and Institutions Code Section 5651.1. These populations are:

- The chronically mentally ill, including those who are homeless.
- Mentally disturbed children and adolescents, including juvenile sex offenders and juvenile victims of sex offenses.
- The mentally ill elderly.
- Mentally ill jail inmates, mentally ill wards of juvenile detention facilities, and mentally ill nuisance offenders who are inappropriately placed in the criminal justice system.
- Underserved populations, including ethnic minorities, refugees, veterans, and other victims of post-traumatic stress disorders, and individuals diagnosed as both mentally ill and developmentally disabled.

Section 5727 of Ch 1286/85 requires that for 1986–87, Targeted Supplement Fund monies shall be used for the following purposes:

- To reduce the inappropriate placement of seriously mentally disordered persons in the criminal justice system rather than in mental health programs.
- To improve mental health services in local jails for seriously mentally disordered inmates who require secure mental health treatment settings.
- To reduce the incidence of sex offenses among children and adolescents.

- To increase utilization of mental health treatment services among the elderly and veterans.

In order to ensure that Targeted Supplement Fund monies are identified in the Budget Bill and used as the Legislature intends, we recommend that the Legislature amend the Budget Bill to create a new item, as follows:

"4440—For support of the Targeted Supplement Fund, Department of Mental Health $30,200,000

Schedule:

(a) For services to the homeless mentally disabled............ $20,000,000

(b) For mental health services that reduce the inappropriate placement of the mentally disabled in jails 5,200,000

(c) For services to the following priority populations........ 5,000,000

(i) mentally disordered persons who require secure treatment setting in jails or other secure facilities

(ii) mentally disabled, the elderly, and veterans

(iii) juvenile sex offenders and juvenile victims of sex offenses

Provisions:

1. Transfers between subitems of this item may be made not sooner than 30 days after notification in writing of the necessity therefor is provided to the chairperson of the committee in each house that considers appropriations and the chairperson of the Joint Legislative Budget Committee, or not sooner than such lesser time as the chairperson of the committee, or his/her designee, may in each instance determine."

Funding Level Questionable

We recommend that prior to budget hearings, the department submit to the Legislature a report that details (1) the process by which it determined what the annual cost for this program should be and (2) the specific criteria that it will use in approving/disapproving county proposals.

The budget proposes an augmentation of $5,200,000 for the Targeted Supplement Fund in order to establish additional 24-hour care mental health treatment beds for seriously mentally disordered persons who otherwise would be inappropriately placed in the criminal justice system.

Chaper 1286, Statutes of 1985, required that unused funds in Item 4440-101-001 of the Budget Act of 1985 be reappropriated to the Director of Mental Health in order to establish additional 24-hour care beds on a half-year basis for 1985–86. These funds will not be used because of *one-time savings* in the current year. We estimate that the amount of unused funds subject to Chapter 1286's provisions will be approximately $10 million.

In a policy letter sent to the counties, the department indicated that it would spend up to $2,600,000 for alternative beds in 1985–86. This amount is equivalent to $5,200,000 on an annualized basis. The policy letter specified that in order to participate in this program, counties must submit proposals that contain:

- A description of (1) the 24-hour services to be provided, (2) how these services will reduce the inappropriate placement of seriously mentally disordered persons in the criminal justice system, and (3) a description of case finding and referral procedures.

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- A description of the specific services, in accordance with the cost reporting/data collection system, that would be reported to the department.
- A budget for each specific service, which details personal services, operating expenses, and equipment.
- Evidence that local police and/or sheriff departments have been involved in the planning of the proposal and support it.

Once their specific delivery plans have been approved, counties will be free to use their allocation of funds.

Our review of the proposal has identified two significant problems that the Legislature should consider. First, we estimate that the one-time savings in Item 4440-101-001 will be substantially larger than $2,600,000. While the exact amount of these savings will depend on how much money is spent for the homeless program in 1985–86, it is reasonably clear that the department intends to spend substantially less on this program than the law requires.

Second, the budget material submitted by the department gives no indication of how the department arrived at the decision to provide for a program costing $5,200,000 on an annual basis. Nor does the material explain the criteria being used by the department in reviewing and approving or disapproving county proposals.

Accordingly, we recommend that prior to budget hearings, the department submit to the Legislature a report that details (1) the process by which the department determined the annual cost for this program and (2) the specific criteria that the department will use to approve or disapprove county proposals.

Proposal Lacks Substance

We withhold recommendation on the $5 million requested for target populations because the department has not provided the Legislature with any information on how the funds will be used.

The budget proposes a $5 million augmentation to implement Section 5727 of Ch 1286/85. Section 5727 requires that in 1986–87, targeted supplement funds be used to support improved mental health services within jails, to increase utilization of mental health services among the elderly and veterans, and to reduce the incidence of sex offenses among children and adolescents.

The budget material submitted by the department merely restates language from Section 5727; it provides no substance whatever for the Legislature to review.

It is probable that a large percentage of those mentally disabled persons covered by Section 5727 could benefit from improved mental health services. At this point, however, the Legislature has no way of assuring itself that the $5 million requested for 1986–87 will be used to promote this objective in an effective manner. Not only is there no way for the Legislature to evaluate the impact approval of this augmentation would have on the identified priority populations, it cannot even determine how this money will be allocated among the priority populations.

Until such time that the department develops a more specific proposal for the use of the $5 million augmentation, we withhold recommendation on these funds.

California Self-Help Center Augmentation Justified

We recommend approval.

The budget proposes $550,000 for the operation of the California Self-Help Center. The center is jointly sponsored by the department and the psychology department at the University of California, Los Angeles. The center serves as a statewide resource for over 2,200 self-help and mutual support groups.

Independent Performance Review Needed

We recommend that the Legislature adopt Budget Bill language directing the department to commission a $250,000 independent performance review of the homeless program to be completed by February 15, 1987.

The Budget Act of 1985 appropriated $20,000,000 to the "Targeted Supplement Fund" for statewide services to chronically mentally ill adults who are homeless or at risk of becoming homeless. Chapter 1286, Statutes of 1985 (AB 2541), established a community support system for the homeless mentally disabled, to be administered by county mental health departments. Services provided to these persons include basic living support and alternatives to inappropriate placement in the criminal justice system.

Following enactment of the Budget Act of 1985, the department developed a methodology for allocating the $20 million among the 58 counties. The methodology uses five equally weighted criteria to determine county allocations. These criteria are (1) population in households with an income at or below 125 percent of the poverty level, (2) population of disabled SSI/SSP recipients, (3) general relief caseload, (4) number of unemployed persons, and (5) total county population. Each county's allocation is dependent on the number and percent of these five groups residing within its borders. For example, if a county had 10 percent of each of the identified groups, it would receive 10 percent of the available funds.

Once a county has received approval from the department for its service delivery plan, it receives its allocation of funds. These service delivery plans must include strategies for offering the homeless mentally disabled assistance in obtaining income, health care, food, shelter, clothing, psychiatric treatment, money management services, and other services. (Homeless mentally disabled clients may accept or refuse any of these services or, for that matter, mental health treatment.) In addition, county service delivery plans must include:

- An estimate of the county's homeless mentally disabled population.
- An estimate of the number of homeless mentally disabled people to be served annually.
- A description of how the county will establish initial contact with homeless mentally disabled persons to be served.
- A description of the services to be provided through the county mental health department.
- A description of (1) the services to be obtained from other agencies and organizations within the community and (2) how interagency linkages and referrals will work to guarantee service delivery.
- A budget for each specific service, which details personal services, operating expenses, and equipment.

The department estimates that the homeless program will be in operation for approximately six months during 1985–86. Assuming that the annual funding level for the homeless program will be $20 million,

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approximately $10 million of the $20 million appropriated for the current year will not have been spent by June 30, 1986. Section 18 of Ch 1286/85 reappropriates the unexpended funds for additional 24-hour care beds "on a half-year basis" without regard to fiscal year. The department has told the counties it can use up to $2.6 million for alternatives for inappropriate jail placements during the *current year.*

Clearly, the state of California has embarked on a major new program to assist homeless mentally disabled persons. This program consists of up to 58 subprograms (one per county), which undoubtedly will exhibit substantial differences. It will be difficult for the Legislature to monitor the success of such a multi-faceted effort.

We believe an independent performance review of the homeless program could provide the Legislature with the information it needs to perform its oversight responsibilities. Such a review could help the Legislature develop answers to the following basic questions:

1. Should changes be made in the allocation of homeless funds to more accurately reflect the distribution of homeless mentally disabled persons in California?
2. How reliable are the estimates of the homeless mentally disabled population made by individual county mental health departments?
3. Are program services reaching the homeless? If not, which county programs need improvement?
4. Are services identified in county plans being provided to the homeless?
5. Do referrals of homeless mentally disabled persons between local agencies work effectively? If not, which counties' referral mechanisms need improvement?
6. What portion of homeless funding is expended for direct services to the homeless? What portion is spent for staff and other indirect service? How does the cost per case vary between counties?

So that the Legislature can obtain the benefits of such a review, we recommend that it adopt the following Budget Bill language:

> "Of the funds appropriated in this item for the Targeted Supplement Fund, $250,000 shall be available for use as needed to commission an independent performance review of the homeless program. The scope of the review shall be designed in consultation with an advisory committee composed of one representative each from the following: the Senate Budget and Fiscal Review Committee, the Assembly Ways and Means Committee, the Department of Finance, the Conference of Local Mental Health Directors, and the Legislative Analyst's office. No funds for this purpose shall be expended prior to consultation with the advisory committee regarding the scope of the performance review. The independent performance review shall be completed and submitted to the Legislature by February 15, 1987. The department shall prepare its response to the review's findings and recommendations within 30 days."

Data on Services Provided to Homeless Needed

We recommend that by April 1, 1986, the department prepare an estimate of what it would cost to (1) amend the Cost Reporting and Data Collection (CRDC) system in order to gather information on specific services provided to homeless mentally disabled clients and (2) report the data through the Client Data System (CDS).

Section 5656 of the Welfare and Institutions Code directs the department to collect specific data regarding clients and client services. The code also directs counties to furnish monthly specific data to the department.

In a policy letter sent to local county mental health departments, the department required the counties, in developing proposals for the homeless program, to include "a description of the specific services to be provided through the proposal with the identification for each of the modes of service and service function pursuant to the Cost Reporting and Data Collection manual."

We do not believe that the modes of service and service functions reflected in the CRDC system will yield information on the specific services provided to homeless mentally disabled clients.

If the Legislature is to evaluate the impact of the homeless program on homeless mentally disabled people, the department must gather client-specific, result-oriented information on services actually provided. Specifically, the data needed to answer the following questions should be collected:

1. Did the client receive welfare assistance from the SSI/SSP or county general relief programs?
2. Did the client receive money management assistance?
3. Did the client receive medical care from the county or a Medi-Cal card?
4. Did the client receive meals and/or food stamps?
5. Did the client receive clothing?
6. Was the client provided temporary shelter and/or placed in an apartment or other housing?
7. Did the client receive anti-psychotropic medications?
8. Was the client placed in a day program for the mentally disabled?

These questions can be answered by the county worker monitoring the progress of the client with a simple yes or no. The data can then be compiled on a monthly basis, yielding information on the frequency and type of services provided as well as on the frequency with which the client reenters the system. By creating this database, the department would assist the Legislature in effectively monitoring the delivery of services in the homeless program.

Accordingly, we recommend that the department estimate the costs of amending the CRDC system to collect information on modes of service and service functions that specifically describe the services offered to homeless mentally disabled clients. We further recommend that the department estimate the cost of (1) entering these data into the CDS or (2) developing an independent system to perform this function if the CDS is unable to accommodate the additional data.

Residential Care Rate Supplement

We recommend that during budget hearings, the department explain to the Legislature how it intends to fund the rate supplement program in 1986–87, given the rate increase proposed by the Department of Developmental Services (DDS) to take effect on July 1, 1986.

The budget proposes to increase the General Fund appropriation for the residential care rate supplement program from $11,300,000 to $13,944,000, an increase of $2,644,000, or 23 percent.

Background. The Budget Act of 1985 appropriated $11,300,000 for a new residential care rate supplement program. The program provides

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rate supplements for private residential care facilities that serve mentally disabled clients. Chapter 1352, Statutes of 1985 (SB 155), required the department to pay eligible providers rates equivalent to those established by the Department of Developmental Services (DDS).

Currently, eligible residential care facilities receive $531 per month per client from the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program. In addition, they receive rate supplements from county mental health departments. The monthly rate supplements vary with the size of the facility and the severity of the client's illness. The lowest rate supplement is $126 per client per month and the highest is $387. The department's estimates assume that the rate supplement program will provide funding for 5,463 clients in 1986–87.

In 1985–86, the rate supplement program will be in operation for approximately six months, from January 1, 1986, to June 30, 1986. The department estimates that the program will cost $1.2 million per month, including administrative costs. Therefore, the total cost of the program, including administrative cost, will be approximately $7 million in 1985–86, leaving an unexpended balance of approximately $4.3 million. At the time this analysis was prepared, the department had no plan for what it intends to do with these savings.

State law requires that rate supplements for mentally disabled clients equal the rate supplements provided on behalf of developmentally disabled clients. In appropriating funds for the mental health rate supplement program, the Budget Act of 1985 made no allowance for a cost-of-living increase in the DDS rates for 1985–86. The 1986–87 budget requests $2,644,000 to offset the effects of this increase.

The budget for 1986–87 again makes no allowance for the fact that DDS rates will increase. As a result, the department has underbudgeted the 1986–87 rate supplement program by $1,050,000. Table 6 shows the basis for our estimate, the impact of the proposed DDS 1986–87 rate supplement, the estimated number of beds for each corresponding rate, and the estimated annual cost of the rate increase.

Table 6

Impact of Department of Developmental Services Rate Adjustment on Mental Health Residential Rate Supplements

1986–87

Current Rates	*1986–87 Rate Adjustment* [a]	*1986–87 Rates*	*Number of Beds*	*Annual Cost* [b]
$126	$13	$139	1,511	$2,767,000
148	14	162	1,024	2,186,000
214	15	229	1,212	3,657,000
207	15	222	966	2,825,000
298	17	315	239	992,000
322	17	339	164	732,000
387	18	405	194	1,035,000
379	18	397	153	800,000
Estimated 1986–87 cost			5,463	$14,994,000
Amount proposed in Budget Bill				13,944,000
Amount underbudgeted				$1,050,000

[a] The DDS includes $531 for SSI/SSP when calculating its rate adjustment.

[b] Includes 9.79 percent for administrative costs.

Accordingly, we recommend that during budget hearings, the department explain to the Legislature how it intends to fund the rate supplement program in 1986–87.

Funds for Rate Supplements Should be Identifiable

We recommend that the Legislature amend the Budget Bill so as to (1) identify funding for the rate supplement program as a distinct subitem of the local assistance item and (2) control the transfer of funds between subitems.

The Legislature in 1985 established several new mental health programs. Several of these programs are categorical in nature. That is, in order to receive funding, a county is required to develop and provide certain services for specifically identified target populations. Funding the program in this manner allows the Legislature to (1) monitor the overall quality and effectiveness of programs on a statewide basis, (2) ensure that funds are spent solely for identified populations and services, and (3) hold the counties accountable for effective service delivery.

Currently, funding for the rate supplement program is an indistinguishable part of the $498.9 million proposed for local mental health programs.

In order to ensure that funding for the rate supplement program is used only as intended by the Legislature, we recommend that the Legislature (1) create an additional subitem (10.45) to the schedule of Item 4440-101-001 in the amount of $13,944,000 for residential care rate supplements, in order to specifically identify the appropriation for the rate supplement program and (2) amend the Budget Bill to require that the department provide the Legislature with a 30-day written notification if it intends to use the funds in the item for any purpose other than for rate supplements.

Independent Performance Review Needed

We recommend that the Legislature adopt Budget Bill language directing the department to commission an independent performance review of the rate supplement program to be completed by February 15, 1987.

In passing Ch 1352/85 and the 1985 Budget Act, the Legislature made a commitment to enhance the quality of service provided to the mentally disabled who live in board and care facilities. If the Legislature is to effectively monitor the rate supplement program, it needs an independent performance review of the program that can help provide answers to the following questions:

1. Are the criteria used to determine whether a client requires basic, level I, or level II supplemental services uniformly applied at the county level? Is the level-of-care assessment instrument developed by the department the appropriate and most effective tool for ensuring uniform client assessment by the counties?
2. To what extent has the rate supplement program increased the quantity of residential care beds available to the mentally disabled?
3. Did the department's methodology correctly project caseload, or will this program experience significant caseload changes and cost increases/decreases?
4. What supplemental services are routinely provided to clients? To what extent do county agreements with facilities specify what additional services are required?

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5. Were recipients of supplemental services effectively monitored and assessed by existing case management services?

6. To what extent has the rate supplement program improved the quality of life and the quality of care for mentally disabled persons who require residential care?

To secure such an independent performance review, we recommend that the Legislature adopt the following Budget Bill language:

"Of the funds appropriated in this item for residential care rate supplements, $250,000 shall be available for use as needed to commission an independent performance review of the rate supplement program. The scope of the review shall be designed in consultation with an advisory committee composed of one representative each from the following: the Senate Budget and Fiscal Review Committee, the Assembly Ways and Means Committee, the Department of Finance, the Conference of Local Mental Health Directors, and the Legislative Analyst's office. No funds for this purpose shall be expended prior to consultation with the advisory committee regarding the scope of the performance review. The independent performance review shall be completed and submitted to the Legislature by February 15, 1987. The department shall prepare its response to the review's findings and recommendations within 30 days."

Other Issues

Augmentation for New Sonoma County Facility Questionable

We recommend that the Legislature (1) delete $200,000 requested from the General Fund and (2) transfer $660,000 from local assistance to the state hospital item, because the department has not justified adequately its proposal to develop a new regional 24-hour subacute skilled nursing facility. We further recommend that the Legislature delete $340,000 to correct for overbudgeting of staff benefits in the state hospital budget. (Reduce Item 4440-011-001 by $540,000.)

The budget proposes a one-time General Fund expenditure of $1,200,000 in 1986–87 for development of a regional 24-hour subacute skilled nursing facility in Sonoma County. The $1,200,000 consists of (1) a $200,000 augmentation and (2) a one-time $1,000,000 redirection of state hospital funds to the local assistance item. The Sonoma facility is to serve as an alternative for those who would otherwise receive acute care services in a local or state hospital.

The department indicates that the total cost of developing the Sonoma facility is $1,600,000. The additional $400,000 would come from state hospital salary savings in 1985–86.

The department has offered several reasons in support of its proposal. First, the capacity of acute and subacute 24-hour care beds at the community level is severely strained. The recent closure of a psychiatric facility in the Napa area due to licensing violations caused a diversion of 68 clients to Napa State Hospital. As a result, county mental health departments cannot admit as many clients to Napa as they would like, and waiting time for admission to Napa has increased. The development of the facility in Sonoma County could help to relieve the increased admission waiting time at Napa.

Second, the department indicates that the proposed facility requires a high initial start-up cost that private providers of service are unwilling or unable to provide. The proposed augmentation would minimize the start-up risk and assist in assuring the private provider a return on investment. Additionally, the department states that Sonoma and Marin Counties do not have the total resources available to initiate the start-up of this facility.

Our analysis of the proposal and the budget material submitted by the department in support of it has turned up the following problems and irregularities:

- ***State Hospital Treatment Deemphasized.*** The department plans to generate $660,000 of the $1,200,000 proposed for the Sonoma facility through forced additional savings in state hospitals. To produce these savings, some state hospital treatment positions would be kept vacant. Thus, $660,000 of the funding for the Sonoma project is to come from reduced services for state hospital clients.
- ***Staff Benefits Overbudgeted.*** The department maintains that $340,000 of the $1.2 million diverted to the Sonoma project would not affect services to state hospital clients because staff benefits for 1986–87 have been overbudgeted. If the department and the Department of Finance knew that staff benefits in the state hospitals budget were overbudgeted before the Governor's Budget was even introduced, the excess funds should not have been in the budget in the first place. This is not a redirection but an augmentation that is indistinguishable from the $200,000 also proposed for 1986–87. In any event, the funds should not be considered as available for transfer to the local assistance budget.
- ***Sonoma and Marin Counties are Resource Rich.*** The department has proposed to implement the project with General Fund money by increasing the allocations of two counties, Sonoma and Marin, that possess very substantial mental health resources in comparison to other counties. There is no indication that these counties are providing any matching financial assistance to supplement General Fund support, or that they require new skilled nursing beds more than other counties.
- ***Augmentation Funds Only 35 Beds.*** The budget submitted by the department provides funding for only 35 of the 79 proposed beds at the facility. There is no indication where funding for the additional 44 beds will come from. Fresno and/or Alameda Counties have been mentioned as possible participants. At the time this analysis was prepared, guaranteed participation of other counties had not been established.
- ***Size of Supplemental Rate Not Documented.*** The budget material indicates that the funds provided by the department would be sufficient to supplement the Medi-Cal rate for skilled nursing facility beds in the amount of $94 per day for 35 beds during a period of 16 months. No documentation has been provided to justify a supplemental rate of $94 per day.
- ***Fifteen Million Dollar Augmentation Available.*** In the past two years, augmentations of $35 million and $40 million have been appropriated for local assistance. An additional $15 million augmentation is proposed for 1986–87. These funds, rather than funds budgeted for the state hospitals, would appear to be the appropriate source of funding for the Sonoma project.
- ***Source of Future Funding Unclear.*** No definitive information is provided regarding the source of continued funding for the facility.

For all of these reasons, we recommend that the Legislature (1) delete $200,000 requested from the General Fund and (2) transfer $660,000 from

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local assistance to the state hospital item. We further recommend that it delete $340,000 to correct for overbudgeting of staff benefits in the state hospital budget.

Implementation of AIDS Mental Health Project

We recommend that prior to budget hearings, the department provide the Legislature with a written status report on the AIDS mental health project.

Chapter 767, Statutes of 1985 (SB 1251), appropriated $4,360,000 to the Department of Health Services (DHS) and the University of California to develop various AIDS-related programs and research projects. Chapter 767, Statutes of 1985, included an appropriation of $600,000 to the Department of Mental Health and recommended that the department establish an AIDS mental health project. The bill required the department to coordinate projects and resources directly with the DHS and empowered the Director of the department to appoint advisory groups as needed.

The Director has appointed an AIDS mental health task group to assist the department. The group also will assist in the development of a work plan for the project. The project will include, but need not be limited to, the following:

- A statewide needs assessment of AIDS-related mental health issues.
- Education and training for mental health professionals throughout the state.
- A media campaign, through the Office of Promotion, focusing on the use of support groups, the relationship between stress and the immune system, and dealing with grief.

AIDS is an urgent public health issue. Accordingly, we recommend that prior to budget hearings, the department provide the Legislature with a status report of the AIDS mental health project which addresses the following issues:

- How will the needs assessment be performed, when will it occur, who will do it, how much will it cost, and when will the results be available to the Legislature?
- Which mental health professionals will be trained, when will the training occur, what information will be presented, who will do the training, and how much will the training cost?
- What media will be used, what messages will be presented, how large will the audience be, when will the media campaign occur, and how much will it cost?

Chapter 208, Statutes of 1982 (SB 929), Medical Screening

We recommend deletion of $67,000 from local assistance because the project for which these funds were appropriated has been completed.

Chapter 208, Statutes of 1982, directed the department to implement a project to study clients in the state hospitals and in the community in order to determine if an individual's physical disability caused or exacerbated the individual's mental disability. The department has completed the project and is currently reviewing the project report prior to submission to the Legislature. All funding and contractual obligations have been completed and resolved. Accordingly, we recommend deletion of $67,000 from local assistance for reversion to the General Fund.

C. STATE HOSPITAL PROGRAMS

The budget proposes state hospital expenditures of $330,119,000 for mentally disabled clients in 1986–87. This is an increase of $35,039,000, or 12 percent, above estimated current-year expenditures. The budget proposes an appropriation of $290,914,000 from the General Fund for these programs, which is an increase of $21,653,000, or 8 percent, above estimated current-year expenditures.

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 Department of Corrections and the Youth Authority who are transferred to state hospitals to receive medication and other treatment.

Table 7

State Hospitals
Programs for the Mentally Disabled
Expenditures, Funding Sources, Population, Positions, and Cost Per Client
1984–85 through 1986–87

	Actual 1984–85	*Est. 1985–86*	*Prop. 1986–87*	*Change Amount*	*Change Percent*
A. Expenditures and funding sources (dollars in thousands)					
County clients	$150,345	$168,935	$179,467	$10,532	6.2%
Judicially committed clients	90,029	101,890	125,666	23,776	23.3
Other clients [a]	18,768	24,255	24,986	731	3.0
Totals	$259,142	$295,080	$330,119	$35,039	11.9%
Funding sources:					
General Fund	$242,030	$269,261	$290,914	$21,653	8.0%
Reimbursements	17,112	25,104	35,299	10,195	40.6
SAFCO	—	715	3,906	3,191	446.3
B. Average population					
County clients	2,643	2,630	2,543	−87	−3.3%
Judicially committed clients	1,781	1,621	1,662	41	2.5
Other clients [a]	356	476	526	50	10.5
Totals	4,780	4,727	4,731	4	0.1%
C. Authorized positions					
Department of Mental Health	3,744	4,471	7,246	2,775	62.1%
Department of Developmental Services	2,881	3,206	962	−2,244	−70.0
Totals	6,625	7,677	8,208	531	6.9%
D. Cost per client					
County clients	$56,884	$64,234	$70,573	$6,339	9.9%
Judicially committed clients	50,550	62,856	75,611	12,775	20.3
Other clients [a]	52,719	50,956	47,502	3,454	6.8
Totals	$54,214	$62,424	$69,778	$7,354	11.8%

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

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Table 7 shows expenditures by client category, funding sources, average population by client category, authorized positions, and cost per client, from 1984–85 through 1986–87, for state hospital programs for the mentally disabled.

Budget Changes

Table 8
State Hospitals
Programs for the Mentally Disabled
Proposed 1986–87 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1985–86 expenditures (Budget Act)	$256,066	$277,065
Adjustments:		
1. 1985–86 salary and benefit increases	13,341	14,233
2. Elimination of limited-term position	−23	−23
3. Adjustment to salary schedule	−626	−626
4. Transfer to conditional release program	−300	−300
5. Increase CDC reimbursement for 100 beds		4,300
6. Drug program reimbursement adjustment		−329
7. Fair Labor Standards Act (FLSA) expenditures for overtime	803	803
8. Other reimbursement adjustments	—	−43
1985–86 expenditures (revised)	$269,261	$295,080
Baseline Adjustments:		
1. Full-year cost of 1985–86 salary and benefit increases	13,272	14,092
2. Reduce one-time costs	−44	−44
3. Reduce collective bargaining costs	−138	−143
4. DDS reductions:		
a. Population-related staffing adjustments	−1,184	−1,184
b. Introduction of labor-saving food service equipment (cook chill)	−305	−305
c. Reduction of FLSA expenditures	−803	−803
5 Full-year costs for PST II	593	593
6. Adjustment to salary schedule	−348	−348
7. Reimbursement adjustment	—	718
8. Transfer to local assistance for Sonoma County facility	−1,000	−1,000
9. Elimination of CDC reimbursement for 100 beds	—	−4,300
Caseload and cost adjustments:		
1. Hospital population changes	−2,595	1,204
2. Partial price increase on operating expenses	987	987
Program change proposals:		
1. Drug program reimbursement adjustment	—	−1,193
2. Mentally disordered offenders program	10,392	10,392
3. 1986–87 treatment staffing augmentation	2,898	2,898
4. Special repairs augmentation	—	1,650
5. Equipment augmentation	—	1,541
6. Metropolitan janitorial contract	−49	−49
7. Metropolitan laundry contract	−11	−11
8. Transfer of Napa from DDS to DMH	−12	10,344
1986–87 expenditures (proposed)	$290,914	$330,119
Change from 1985–86 (revised):		
Amount	$21,653	$35,039
Percent	8.0%	11.9%

Table 8 shows the 1985–86 and 1986–87 changes in the department's budget for programs at state hospitals serving the mentally disabled. The major 1985–86 changes are (1) $14.2 million to cover employee compensation increases and (2) $4.3 million in increased reimbursements from the California Department of Corrections (CDC) which will be used to fund 100 beds not funded in the 1985 Budget Act.

The budget for 1986–87 proposes a net increase of approximately $22 million from estimated General Fund expenditures in the current year. The major 1986–87 changes include (1) $10.4 million for a new mentally disordered offender program, (2) $10.3 million to reflect the proposed transfer of Napa State Hospital from the Department of Developmental Services (DDS) to the department, and (3) $2.2 million for treatment staffing augmentations for the model treatment programs.

Cost Per Client

Table 9 displays the cost per client for treatment staff, support staff, and operating expenses at each hospital. 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 receive larger staff allocations. Variations in treatment staff cost in the current year range from a low of $31,193 per client at Metropolitan to a high of $40,230 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 $15,963 per client at Atascadero to a high of $24,385 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 $6,835 per client at Patton to a high of $8,840 at Camarillo. Operating expenses vary with the size and efficiency of the physical plant and the number of services that each hospital contracts out for with private providers. Large, older hospitals with inefficient equipment have high operating expenses per client.

The major changes in treatment, support, and operating expense costs between one fiscal year and another primarily reflect the following factors:

1. Employee compensation increases have been budgeted for both the current year and budget year. Previously, these increases were only budgeted as a baseline adjustment to the current year. Employee compensation costs for 1986–1987, however, are already known and have been included in the cost-per-client figures shown in Table 9.
2. Augmentations to treatment staffing were not distributed uniformly. Thus, for each phase of the treatment staffing augmentation, one hospital may have received most of the new positions, while another hospital received none or very few new staff. Also, because the treatment staffing augmentations were budgeted on a partial-year basis, the increases from one year to the next reflect the impact of "annualizing" the prior year increase.

DEPARTMENT OF MENTAL HEALTH—Continued

3. Some hospitals have negotiated contracts with private providers for services originally performed by state employees. Accordingly, support costs at these hospitals may decline while their operating expense costs increase to reflect the cost of the private provider contract.

Table 9
State Hospital Cost Per Client
Programs for the Mentally Disabled
1984–85 through 1986–87

	Treatment Staff	*Percent Change*	*Support Staff*	*Percent Change*	*Operating Expenses*	*Percent Change*	*Totals*	*Percent Change*
Atascadero								
1984–85	$26,211		$17,132		$7,087		$50,430	
1985–86	38,896	48.4%	15,963	−6.8%	7,142	0.8%	62,001	22.9%
1986–87	40,983	5.4%	18,805	17.8%	8,618	20.7%	68,406	10.3%
Camarillo [a]								
1984–85	$31,362		$20,298		$9,955		$61,615	
1985–86	40,230	28.3%	19,726	−2.8%	8,840	−11.2%	68,796	11.7%
1986–87	42,133	4.7%	20,834	5.6%	10,501	18.8%	73,468	6.8%
Metropolitan								
1984–85	$28,067		$23,584		$7,631		$59,282	
1985–86	31,193	11.1%	24,385	3.4%	7,646	0.2%	63,224	6.6%
1986–87	37,271	19.5%	26,074	6.9%	9,513	24.4%	72,858	15.2%
Napa [a]								
1984–85	$30,588		$16,789		$8,314		$55,691	
1985–86	38,390	25.5%	18,149	8.1%	7,454	−10.3%	63,993	14.9%
1986–87	39,996	4.2%	20,890	15.1%	7,243	−2.8%	68,129	6.5%
Patton								
1984–85	$24,653		$16,282		$6,855		$47,790	
1985–86	33,554	36.1%	16,983	4.3%	6,835	−0.3%	57,372	20.1%
1986–87	35,095	4.6%	16,886	−0.6%	8,134	19.0%	60,115	4.8%

[a] Costs represent average costs of combined mental health and developmentally disabled programs.

Mentally Disordered Offender Program

The budget for 1986–87 requests $19,047,000 to fund the first-year cost of the mentally disordered offender (MDO) program. The $19,047,000 is composed of $10,392,000 in the state hospital item for inpatient services and $8,655,000 in the department support item for administration and outpatient services.

The MDO program, which was established by Ch 1419/85 (SB 1296) provides a new mechanism for extending the commitment of mentally disordered prison inmates who are eligible for parole. The program will become operational on July 1, 1986. Our analysis of the budget proposal for the MDO program will describe the commitment criteria and procedures used by the program, and address several broad public policy issues that the program raises.

Background

Commitment Criteria. In order to be subject to the commitment procedures established by Chapter 1419, a prisoner eligible for parole must meet all of the following criteria:

- The prisoner must have a severe mental disorder.
- The mental disorder either is not in remission or cannot be kept in remission.

- The disorder was one of the causes or an aggravating factor in the crime for which the prisoner was convicted.
- The prisoner has received 90 days or more of treatment for the severe mental disorder.
- The crime involved the use of force or violence or caused severe bodily injury.

Commitment Procedures. The following procedures explain how a prisoner can be committed to the mental health system as a condition of parole.

- ***Evaluation.*** In order to be placed into the MDO program, mental health professionals from the Departments of Mental Health and Corrections (CDC) must evaluate and assess the prisoner to jointly determine if the prisoner satisfies the commitment criteria. If the departments do not agree that the prisoner meets the criteria, two additional evaluators are selected from an independent panel to evaluate the prisoner.
- ***Commitment by the Board of Prison Terms (BPT).*** Once it is determined that the prisoner satisfies the commitment criteria, the BPT may commit the prisoner to the Department of Mental Health.
- ***Treatment—Inpatient and Outpatient.*** Each prisoner/parolee (the prisoner is now a parolee) who is committed to the MDO program will automatically be placed on inpatient status for treatment and evaluation during a 90-day period. At the end of the period, the department must commit the parolee to inpatient status unless the department can certify to the BPT that the parolee can be safely and effectively treated on an outpatient basis.
- ***Outpatient Revocation.*** If a parolee has been placed in an outpatient treatment program and the outpatient program director determines that the parolee can no longer be safely and effectively treated on an outpatient basis, the director may place the parolee in a secure mental health facility. This revocation of outpatient status will continue until the parolee may again be safely treated on an outpatient basis.
- ***Parole Revocation.*** The parole officer may remand a parolee to a state correctional facility. The parole officer must consult with the director of the parolee's outpatient program before seeking a return to prison.
- ***Administrative Hearings.*** The law provides for administrative hearings under the following circumstances:
  - The prisoner may request, and has the right to receive, a hearing before the BPT in order to determine if the criteria established at the time of the initial commitment to the MDO program have, in fact, been met. The burden of proof is on the department, the CDC, or the independent evaluators to certify that the prisoner meets the specified commitment criteria.
  - The parolee may request another administrative hearing if the department has not placed the parolee on outpatient treatment within 60 days after receiving custody of the parolee. The burden of proof is on the department to establish that the parolee requires inpatient treatment.
  - A third administrative hearing is held by the department if a parolee's outpatient status is revoked. The department must conduct a hearing within 15 days after revocation of outpatient status to determine whether the parolee can be safely and effectively treated in the program.

DEPARTMENT OF MENTAL HEALTH—Continued

- ***Judicial Hearings.*** The law provides for judicial hearings under the following circumstances:
  - If the parolee disagrees with the findings from the administrative hearing held to determine whether the parolee meets the commitment criteria, the parolee has the right to petition for a superior court hearing on the same issues. A jury trial may be requested with the standard of proof being "beyond a reasonable doubt;" the jury's decision must be unanimous.
  - Within 180 days prior to the termination of parole, a district attorney may file a petition with the superior court to request continued involuntary treatment for one additional year. Again, a jury trial may be requested with the standard of proof for continued involuntary treatment being "beyond a reasonable doubt." The jury's decision to continue the treatment must be unanimous. Additionally, the parolee may file a petition for a writ of habeas corpus at any time during this commitment.

Uncertainties and Assumptions Necessitate Careful Legislative Review and Cautious Implementation

We withhold recommendation on $19,047,000 requested from the General Fund to provide for the start-up and implementation of the mentally disordered offender program, pending resolution of issues involving program needs and cost estimates.

We recommend that by April 15, 1986, the department submit to the Legislature a report detailing the broad policy ramifications that implementation of the mentally disordered offender program will have on the state mental health system and other state and county programs.

The budget for 1986–87 requests a $19,047,000 augmentation to fund the first-year costs of the MDO program. Because this is a new program with no track record, the department derived population projections based upon its "best estimates" for:

- The number of potential parolees that could be committed to the MDO program.
- The number of parolees that would receive inpatient treatment.
- The number of parolees placed on outpatient treatment status who would have their outpatient status revoked.
- The length of time that a parolee would require inpatient and outpatient treatment.

These projections are shown in Table 10. The department then developed a program budget and staffing request, based on the population projections.

Table 10

Department of Mental Health
Mentally Disordered Offender Program
Ten Year Population Projections

	Year									
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Inpatient population	287	488	656	823	908	983	1,055	1,126	1,133	1,139
Outpatient population	206	498	833	1,149	1,133	1,422	1,481	1,481	1,599	1,658
Totals	493	986	1,489	1,972	2,041	2,405	2,536	2,607	2,732	2,797

Source: Department of Mental Health

Bed Transfers Are Only Temporary Solutions and May Create Potentially Dangerous Security Problems. As Table 10 shows, the department estimates that the first-year inpatient caseload for the MDO program will be 287 parolees. The department has decided that inpatient treatment will take place at Atascadero State Hospital, the most secure of all the state hospitals. To make room at Atascadero for the MDO program, the department proposes a series of population transfers and diversions from Atascadero to Patton State Hospital and Metropolitan State Hospital. The first transfer, from Atascadero to Patton, involves a total of 200–300 persons found not guilty by reason of insanity or incompetent to stand trial, and Lanterman-Petris-Short (LPS) patients. The second transfer, from Patton to Metropolitan, will move almost 100 LPS patients.

It is not clear what impact the proposed transfer would have on Patton State Hospital. Given that Atascadero is the most secure state hospital and generally houses patients that are among the most difficult to handle, the Legislature must determine if the physical plant and the existing staff at Patton are sufficient to cope with a more-difficult-to-handle patient population. Similarly, the Legislature will want to consider what kind of influence these difficult patients will have on the hospital's existing population.

The same questions can be raised regarding the transfer of LPS patients from Patton to Metropolitan. Again, the bed transfer involves taking difficult patients from, in this case, a secure hospital with 14-foot fences and CDC security staff patrolling the perimeter, and placing them in a less secure environment. What are the staffing and security implications of the proposed transfer for Metropolitan? Is the physical plant and existing staff sufficient to deal with the new patients? What kind of influence will these patients have on the existing hospital population?

The department should provide the Legislature with information addressing these issues within the context of an overall plan for the MDO program.

Implementation of the MDO Program Will Aggravate Capacity Problems of the State Hospitals. The current patient population in the state hospitals already equals the current bed capacity of the hospitals. Moreover, the department indicates that the current LPS population exceeds, by almost 150, the self-imposed limit on these patients (2,543). The department also indicates that projections of county overuse of their allocated bed-days is much higher than in previous years. Additionally, the department has agreed to increase by 100 the number of beds provided to the CDC in the current year, bringing the total number of corrections beds at Atascadero to approximately 457.

If the assumptions regarding caseload for the MDO program are correct, the department will need 488 beds for the program in the second year. By the third year, the number of beds needed will exceed 650. Even if all of the proposed bed transfers occur and if there is *no* growth in the LPS, CDC, or other patient populations, the population of Atascadero will be at least 150 beds more than the hospital's licensed capacity.

The department has basically two options for alleviating the bed shortage so that it can serve the MDO population without expanding the state hospitals' bed capacity. It could (1) reduce the number of corrections beds, or (2) place a cap on LPS admissions. Both alternatives have significant policy ramifications.

DEPARTMENT OF MENTAL HEALTH—Continued

Option 1: Reduce the number of CDC-contracted beds. This option would ease the problem for the mental health system but add to the already serious problem faced by CDC. Thus, it would merely transfer, not solve the capacity problem.

Option 2: Limit the number of LPS admissions to the state hospitals. Under this option the counties would be required to strictly adhere to their allotted number of hospital days. Enforcing this policy, however, would be extremely difficult, especially in instances where there are no available beds in the community.

Although these two options could reduce the pressure on state hospital bed usage, it is clear that the construction of several hundred new beds will be necessary if the MDO inpatient population projected in Table 10 materializes. The shortage of beds could be acute as early as the third year of the program.

Should the State Construct a New Facility or Add on to an Existing State Hospital? To meet the long-term need for new beds, the department could build an additional 500 beds at Atascadero. The department estimates that these beds would cost upwards of $50 million. Otherwise, the department either will have to build a new free-standing facility or assume control of a facility now occupied by other patients.

Before the Legislature makes a final decision either to build an addition to an existing facility or to build an entirely new facility, it needs to consider the following issues:

- Do the short-term capital outlay savings achieved by adding on to an existing facility offset the higher operating costs relative to a new facility?
- Where could a new facility be located, and how long would it be before the new facility could be occupied?

Atascadero State "Prison"? If 500 new beds for the MDO program are built at Atascadero and there is no reduction in the number of CDC beds, the population at Atascadero, for all intents and purposes, would be composed of the most difficult-to-handle, mentally disabled criminal offenders. Should the department be administering a hospital that is, in reality, a correctional facility, or should jurisdiction of the hospital be transferred to the CDC?

The Conditional Release Program: A New "State" Operation? An integral component of the MDO program is outpatient treatment. Chapter 1419 calls for outpatient treatment to be administered and provided by the conditional release program. It is uncertain, however, whether the department will be able to negotiate conditional release contracts with the counties in order to provide outpatient services to the MDO population. In fact, based on our discussions with the department, we believe it is possible that several counties may choose to discontinue *existing* conditional release program contracts with the state because of the MDO program. If this occurs, the state will have to provide outpatient services using state employees or through contracts with private providers. As Table 10 indicates, the outpatient population for the MDO program is projected to almost double after the *first* year of operation.

Analyst's Comments and Questions. Implementation of the MDO program certainly will have a profound impact not only on the department, but also on several counties and other state departments. Consequently, we believe the Legislature should be fully apprised of the broad policy ramifications that implementation of the MDO program will have. Specifically, the Legislature needs to know:

- What are the security implications that result from the transfer of patients from one state hospital to another? Are both Patton and Metropolitan State Hospitals sufficiently secure and sufficiently staffed to serve more-difficult-to-handle patients?
- How does the department propose to operate the MDO program and other hospital programs three years from now, given that the existing bed capacity of the state hospitals is already severely strained and proposed remodeling prospects are behind schedule?
- What is the likelihood that bed utilization by the counties and the CDC will decrease in order to free-up bed space for new admissions to the MDO program? What are the implications for mentally disordered prison inmates if the department reduces the CDC's bed utilization? What are the implications for the counties if they are required to stay within their allocation of state hospital days? Are there other alternatives to substantially reduce the state hospital population that should be explored in order to accommodate the MDO program?
- Should a new state hospital facility be built or should new beds be added to an existing facility? How much would each alternative cost over a 10-year period? What are the long-term benefits of building an entirely new facility versus adding on to an existing one?
- Should jurisdiction of Atascadero be transferred from the Department of Mental Health to the California Department of Corrections? Should Atascadero's bed composition be predominantly penal code clients and mentally disordered offenders? Should a new facility be built solely for mentally disordered corrections inmates?
- What does the department propose to do if it can no longer negotiate contracts for the conditional release program with the counties?

Accordingly, we recommend that during budget hearings, the department present to the Legislature a report detailing the broad policy ramifications that implementation of the mentally disordered offender program will have for the state mental health system, other state departments, and county programs. Until information addressing these issues is available, we have no basis upon which to advise the Legislature as to what the "correct" caseload or dollar numbers are for the MDO program in 1986–87.

Hospital Population Adjustments

We recommend that the Legislature approve the proposed reduction of 214 state hospital positions due to population adjustments. We withhold recommendation on the remaining population-related staffing adjustments until the Legislature has had the opportunity to review what impact implementation of the mentally disordered offender program will have on the state hospitals.

The budget proposes a net reduction of 76 state hospital positions. The budget also requests $1,204,000 from the General Fund to fund population-related staffing adjustments.

The budget material proposes three different adjustments to staffing levels for the state hospitals. First, the department proposes a reduction of $3,385,000 and 214 positions to reflect a decline in the number of judicially committed clients. The department expects the number of these clients to go down during 1986–87 due to a projected decline in the number of admissions for not guilty by reason of insanity and incompetent to stand trial clients. By June 30, 1987, the number of judicially committed

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clients is expected to be 173 below the current-year level.

Second, the budget proposes to increase the number of staff by 122, at a cost to the General Fund of $3,799,000, to reflect an increase in the number of California Department of Corrections (CDC) inmates served at Atascadero State Hospital. These inmates will increase by 100.

Third, the department proposes an increase of $790,000 and 16 positions to reflect the 1986–87 phase of the planned scheduled treatment (PST).

Our analysis of the budget material submitted by the department indicates that the penal code population is likely to decline by 173 judicially committed clients. Accordingly, we recommend approval of the proposed General Fund reduction of $3,385,000 and 214 state hospital positions. We are reluctant to recommend approval for the remaining two adjustments, however, until the Legislature has had the opportunity to review what impact implementation of the mentally disordered offender program will have on the state hospitals. Therefore, we withhold recommendation on the remaining population-related staffing adjustments for the state hospitals, pending legislative review of the proposal for the MDO program.

Other State Hospital Issues

State Hospital Staffing Initiative Under Review

We withhold recommendation on $2,238,000 requested for 264 proposed new positions, pending further review of the proposal.

The budget proposes to add 264 new state hospital treatment positions, at a partial year cost of $2,238,000 in 1986–87. These additional positions constitute the third phase of the Governor's three-phase program to augment level-of-care staffing for state hospital programs serving the mentally disabled. The full-year cost of the phase three augmentations is $7,357,000. The department estimates that the full-year cost of all three phases is approximately $18 million per year.

The three-year staffing augmentations are associated with treatment program changes, hospital license category revisions, and major captial outlay proposals. The department states that the improvements will assist all five hospitals that serve the mentally disabled (Metropolitian, Napa, Camarillo, Atascadero, and Patton) to obtain accreditation by the Joint Commission on Accreditation of Hospitals (JCAH). These improvements will also assist Metropolitan, Napa, and Camarillo State Hospitals to become certified for Medi-Cal and Medicare payments.

Our review of the first two phases of the treatment staffing augmentations indicates that substantial changes have taken place at the hospital ward level. Major treatment program improvements include:

- The creation of two new ward classifications (subacute-intermediate care and special treatment program-skilled nursing), recategorization of existing wards, and a shift of patients to different wards where appropriate.
- Revisions in the licensure of beds and requests for certification in order to qualify for Medi-Cal and Medicare funding.
- Revised staffing standards to provide more scheduled treatment activities and more scheduled treatment hours for patients.
- Progress in developing an automated monitoring system to collect data on treatment activities provided to clients.
- Creation of an evaluation team to monitor the quality of treatment provided.

The third phase of the staffing proposal follows the same approach as the first two phases. The hospital programs submit a written description of the kind of treatment activities that they propose to offer to their clients. To date, 21 proposals have been submitted for 1986–87—most of them coming from Metropolitan State Hospital. Because the hospitals have submitted a large volume of written materials for our review, we will need additional time to thoroughly review the justification for the proposed increases. Therefore, we withhold recommendation on the increases at this time. When we have completed our review, we will submit a supplemental analysis to the Legislature for its consideration.

Equipment Request Needs More Work withdraw recommendation to reduce $44,000 - concur w/ dept's estimates.

We recommend that the Legislature (1) reduce the amount budgeted for state hospital equipment by $44,000 to correct for overbudgeting (reduce Item 4440-011-001 by $44,000) and (2) approve $835,000 requested for ward furniture for the state hospitals. We withhold recommendation on the balance of the remaining proposed augmentation for equipment for the state hospitals ($706,000), pending the receipt of clarifying information.

The budget proposes a $1,541,000 augmentation from the Special Account for Capital Outlay (SAFCO) for the purchase of equipment for the state hospitals. This amounts to a 254 percent increase from "baseline" funding for equipment ($607,000).

The department's equipment request has three components: (1) baseline funding ($607,000) from the General Fund, (2) $835,000 from SAFCO for the purchase of ward furniture, and (3) $706,000 from SAFCO funds for purchase of items directly related to the department's goal of achieving accreditation for the state hospitals.

Component 1. Our analysis of the department's base budget for the state hospital equipment reveals that this item is overbudgeted by $44,000. The department did not adjust the base for the one-time purchase of a bus for Patton State Hospital.

Component 2. Our analysis of the request for $835,000 to purchase ward furniture for the state hospitals indicates that this request has merit. Both the number of items needed and the estimated costs have been sufficiently documented to warrant approval of this proposal.

Component 3. The department states that much of the existing hospital equipment is inefficient and obsolete. It maintains that current funding levels allow for the replacement of the equipment inventory once every 18 years, while most hospital equipment has a life expectancy of 5 to 15 years. Accordingly, the department believes that baseline funding for equipment replacement is not adequate.

Our analysis of the $706,000 requested to augment the equipment budget line item has identified several problems. Specifically, we find that:

- ***DMH Estimates of Replacement Costs Are Not Consistent From One Hospital to Another.*** For example, Atascadero State Hospital requested one "wet/dry vacuum" at an estimated cost of $18,150. Metropolitan State Hospital requested *five* of the same vacuums for a *total* cost of $2,500. Furthermore, Metropolitan requests one "I-V standard," at a cost of $75, while Patton State Hospital requests four of the same item at a total cost of $759—a difference of roughly $115 per item. A "hospital, X-ray film processor" at Metropolitan is estimated to cost $25,000, while at Patton the same item is estimated to cost $6,000.

DEPARTMENT OF MENTAL HEALTH—Continued

- ***DMH Estimates of Replacement Costs Are Not Consistent With DDS Estimates.*** For example, Atascadero requests eight food service transport cabinets at an estimated total cost of $18,000, or $2,250 per cabinet. The same item is quoted at $500 each (1984 dollars) in the "State Hospital Equipment Standards" published by the Hospital Operations Division, Department of Developmental Services (DDS). Similarly, Patton requests 20 bed scales at $398 each for a total cost of $7,950. The same item in the DDS State Hospital Equipment Standards is $3,500 per scale in 1984 dollars.
- ***DMH Budget Material Presents Conflicting Estimates of Costs and Numbers of Items Needed.*** The department's budget material cites different costs for the same item. For example, an inventory for Patton shows that one ice maker for the main kitchen is needed, at an estimated total cost of $10,565. Elsewhere, the budget material shows that two of these items are needed for an estimated total cost of $3,392.

These are just a few of the many irregularities in the department's equipment proposal for 1986–87. In response, the department maintained that the differences can be attributed to the fact that the hospitals secure equipment prices from different vendors in different areas. It also stated that the necessary specifications required for each item differ from hospital to hospital. Finally, the department contended that the "State Hospital Equipment Standards" published by the Hospital Operations Division, DDS, is wrong and should not be used as a reliable source of information.

Without better justification of the amount requested, however, we have no basis for recommending approval of this amount.

In summary, we recommend that the Legislature (1) delete $44,000 requested from the General Fund to correct for overbudgeting in the base budget and (2) approve $835,000 requested for the purchase of ward furniture for the state hospitals because the department has clearly documented the need for this purchase.

We withhold recommendation on the remaining $706,000 requested from the SAFCO, pending receipt from the department of information rectifying the inconsistencies in the request.

At the time this analysis was prepared, the department had not completed a report on the state hospital equipment inventory required by the *Supplemental Report of the 1985 Budget Act*. This report was supposed to have been submitted with the department's 1986–87 budget.

Special Repairs Request Incomplete

We withhold recommendation on the $1,650,000 augmentation requested from the Special Account for Capital Outlay for special repairs, pending receipt of a five-year plan specifying the state hospitals' long-range needs for special repairs projects.

The budget proposes a total of $2,365,000 for special repairs in 1986–87. This is a $1,650,000, or 231 percent, increase above the $715,000 authorized for 1985–86. Special repairs are those projects which maintain the usability of the facility at its designed level of service. In contrast, capital outlay projects include new construction, alterations, and extension or betterment of existing structures.

The department states that many infrastructure systems, such as roads, roofs, plumbing and sewage, electrical, and exterior and interior paint, are failing or need major repairs. In the past, funding for these projects has not been sufficient to meet special repair needs. This, according to the department, has caused hospitals to redirect funds from other areas in order to make the repairs needed to operate the facilities.

The budget material submitted by the department indicates that the 1986–87 request is the first phase of a five-year, $8.3 million plan to fund special repairs projects. The department plans to request $2,365,000 in 1986–87 and 1987–88 and $1,801,000 annually in 1988–89 and 1989–90, in addition to $715,000 in the current year. This would allow completion of the special repairs needed to achieve accreditation of the state hospitals by the Joint Commission on Accreditation of Hospitals (JCAH).

Our analysis indicates that funding for special repairs in past years has been insufficient and that many special repairs projects are long overdue. Before the Legislature can make an informed decision regarding the proposal, however, the department should submit a comprehensive special repairs plan for the hospitals. The plan should:

1. Set forth the department's priorities for addressing *all* major special repair needs on a statewide basis so that the projects funded will be the projects actually undertaken.
2. Propose a specific schedule, with cost estimates, for ongoing preventive maintenance so that more costly problems can be avoided in the future.
3. Discuss the feasibility of, and estimates for, a contingency fund for emergency repairs, in order to prevent the unwarranted substitution of projects not on the list.
4. Propose a reporting mechanism that indicates which projects have been completed, whether they were completed on time, and whether the projects were within budgeted amounts.

We withhold recommendation on the proposed $1,650,000 augmentation, pending receipt from the department of a comprehensive special repairs plan.

Construction Management Firm Contract Needed

We recommend approval.

The budget requests $500,000 from the Special Account for Capital Outlay (SAFCO) for the purpose of contracting with a construction management firm.

The department is in the midst of a major remodeling program at the five state hospitals housing mentally disabled patients. The department states that it needs to contract with a construction management firm to (1) ensure that the private construction firms stay within project time frames and (2) provide additional technical assistance. The department indicates that the DDS had a similar contract during the remodeling program for developmentally disabled clients' living areas.

Our review of the proposal indicates that the concept of a contract with a construction management firm has merit. The department does not have a facilities planning unit, and it will need the technical assistance of a firm that has experience in the management of large construction projects. Therefore, we recommend approval of the amount as budgeted.

Accreditation Contract Needs Updated Estimates

We withhold recommendation on the $341,000 requested for contracting with the Joint Commission on Accreditation of Hospitals (JCAH), pending receipt of updated and detailed cost estimates that accurately reflect the levels of expenditures for consultation and survey costs.

DEPARTMENT OF MENTAL HEALTH—Continued

The budget requests $341,000 from the General Fund to finance a contract with the JCAH. This contract would assist the department in achieving accreditation of all state hospitals during 1987. Accreditation of all state hospitals could generate up to $30 million annually in increased Medi-Cal and Medicare reimbursements.

The department indicates that the budget material provided to us for review was prepared before a contract with the JCAH was finalized. Therefore, the cost estimates included in the budget material do not accurately reflect the actual cost of the contract. Additionally, the cost estimates for this proposal were presented in a very general form. Until we receive updated and detailed cost estimates that accurately reflect the levels of expenditures for consultation and survey, we withhold recommendation on this request.

Composition of Evaluation Team Needs Modification

We recommend that the department (1) revise the composition of the state hospital evaluation team to conform with requirements set forth in the Supplemental Report of the 1985 Budget Act and (2) provide the Legislature with revised cost estimates for the evaluation of all five state hospitals.

The budget for 1986–87 requests $64,000 to fund travel and contract expenses for 12 evaluators and 3 observers who will evaluate services for the mentally disabled at three state hospitals.

The *Supplemental Report of the 1985 Budget Act* required the department to complete a protocol for the impartial evaluation of the quality of planned scheduled treatment activities offered by the state hospitals. The supplemental report requires that (1) a team of not less than five evaluators spend at least four working days at each hospital to conduct the evaluation and (2) a majority of the team be composed of independent evaluators who are not employed by a state hospital or the department.

The department's proposal indicates that the evaluation team will be composed of 15 individuals: 8 departmental staff, 3 state hospital advisory board observers, and 4 independent contract evaluators. The proposal provides cost estimates for conducting the evaluation at three state hospitals: Atascadero, Camarillo, and Napa.

Our review indicates that the department's proposal does not conform with the requirements set forth in the supplemental report. A majority of the evaluation team members are not independent evaluators. Additionally, the department's proposal does not provide an estimate for the cost of evaluating Metropolitan and Patton State Hospitals. We recommend that the department revise the composition of the evaluation team to conform with requirements specified in the supplemental report and provide the Legislature with cost estimates for the evaluation project at Metropolitan and Patton State Hospitals.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY

Item 4440-301 from the Special Account for Capital Outlay, General Fund — Budget p. HW 115

Requested 1986–87	$20,273,000
Recommended approval	642,000
Recommended reduction	285,000
Recommendation pending	19,346,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Report. Recommend that the department submit a report to the Legislature detailing the goals, objectives, timelines and cost of its capital outlay program and its plan for accommodating the Mentally Disordered Offender (MDO) population. 858
2. Withhold recommendation on five projects under Item 4440-301-036(2), (5), (6), (7) and (9) (Table 1, page 858), totaling $18,404,000 for working drawings and construction, pending receipt or review of preliminary plans and cost estimates. 862
3. Withhold recommendation on three projects under Item 4440-301-036(4), (8) and (10) (Table 1, page 858), totaling $942,000 for preliminary plans, pending receipt of cost estimates and other information. 863
4. ***Emergency Electrical Power. Reduce Item 4440-301-036(3) by $214,000.*** Recommend reduction to correct for overbudgeting. 863
5. ***Minor Projects. Reduce Item 4440-301-036(1) by $71,000.*** Recommend reduction to eliminate funding for (a) one project which is not adequately justified and (b) one project which should be funded from the department's support budget. 864

ANALYSIS AND RECOMMENDATIONS

Overview of Budget Request

The budget proposes $20,273,000 for the Department of Mental Health's (DMH) capital outlay program in 1986–87. We are withholding recommendation to the Legislature on $19,346,000 of the amount requested because the department has not provided sufficient information for the Legislature to evaluate either the cost or the scope of the proposed projects.

In addition, we recommend that the Legislature reduce (1) Item 4440-301-036(3) by $214,000 to correct for overbudgeting and (2) Item 4440-301-036(1), minor projects, by $71,000 to eliminate funding for two projects. The department's request and our recommendations are summarized in Table 1 below.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

Table 1
Department of Mental Health
1986–87 Capital Outlay Program
(dollars in thousands)

Sub Item	Project Title	Location (Number of beds)	Phase[a]	Budget Bill Amount	Analyst's Recommendation
(1)	Minor Projects	Various	p,w,c	$396	$325
(2)	Construct Office Buildings	Atascadero	w,c	2,225	pending preliminary plans
(3)	Emergency Electrical Power, Phase II	Atascadero	p,w,c	531	317
(4)	Fire and Life Safety Improvements and Remodel	Atascadero (957)	p	364	pending cost estimate
(5)	Fire and Life Safety and Environmental Improvements R & T	Metropolitan (170)	c	3,253	pending preliminary plans
(6)	Fire and Life Safety and Environmental Improvements, Building 195	Napa (132)	c	6,718	pending preliminary plans
(7)	Fire Detection System, Phase II	Napa	c	663	pending review of preliminary plans
(8)	Fire and Life Safety and Environmental Improvements, Building 199	Napa (328)	p	332	pending cost estimate
(9)	Fire and Life Safety and Environmental Improvements and Enclose Porches, N building	Patton (328)	c	5,545	pending preliminary plans
(10)	Fire and Life Safety and Environmental Improvements, 30 building	Patton (308)	p	246	pending cost estimate
	Totals	(2,223 beds)		$20,273	pending

[a] Phase symbols indicate: p = preliminary plans; w = working drawings; and c = construction.

Status Of Five-Year Plan to Remodel All State Hospital Beds and Attain Accreditation

We recommend that prior to legislative hearings, the DMH submit a report detailing (1) the goals and objectives of its capital outlay program, (2) its timeline for and estimated cost of preliminary plans, working drawings and construction of fire/life safety and environmental improvements (FLSEI) to all hospital units for the mentally disabled, (3) its plan for housing the Mentally Disordered Offender (MDO) clientele through 1995 and (4) what changes in FLSEI remodeling of MDO units will be necessary to ensure safety of patients and staff.

The capital outlay projects proposed for the state's mental health hospitals in 1986–87 represent the third year of the administration's "Mental Health Initiative"—a five-year program intended to upgrade the quality of hospital care and facilities and to gain accreditation of all state hospitals before the end of 1987.

The DMH has not identified the total cost of this improvement program. Over the past two years however, the Legislature has appropriated approximately $35 million to the DMH for the program. The department is requesting nearly $20 million for the program in 1986–87.

In this section, we review the progress that the DMH is making toward completing the fire/life safety and environmental improvements (FLSEI) and achieving full licensing/accreditation of the hospitals by the end of 1987. Our key findings are as follows:

- The approved remodeling for fire/life safety and environmental improvements is *substantially* behind schedule.
- The goals of the DMD's capital outlay program have become obscured.
- The DMH's capital outlay program needs to be reevaluated to account for the Mentally Disordered Offender (MDO) program soon to be started in the state hospital system under the provisions of Chapter 1419, Statutes of 1985.

Each of these problems is discussed below.

FLSEI Remodeling Is Substantially Behind Schedule. Attaining the goal of full FLSEI remodeling and accreditation within five years depends on proper planning and careful project management to minimize delays. In the *Supplemental Report of the 1985 Conference Committee*, the Legislature specified the department's timelines for the eight projects funded under the DMH's capital outlay program. One project deadline has not yet been reached, and the department has *cancelled* one project which the Legislature approved—the Metropolitan State Hospital Laundry Cogeneration project. (The department has *not* advised the Legislature of this cancellation nor has the department given a reason for its action). *The department has missed all six of the remaining timelines.* Two projects at Metropolitan State Hospital—the FLSEI remodeling of CTW unit and the upgrade of the electrical system—are more than six months behind the schedule established by the Legislature.

We expect that the projects funded in 1986–87 will be similarly delayed because the department is requesting funds for projects for which it has not completed the requisite planning. For example, the department is requesting construction funds in 1986–87 for three FLSEI projects. At the time this *Analysis* was prepared, the department did not have preliminary plans or an Office of State Architect budget for any of these projects. The department is also requesting *preliminary planning* funds for three additional FLSEI projects, yet the department does not have schematic drawings or a budget estimate for any of the projects.

Table 2

Status of FLSEI Bed Remodeling
Department of Mental Health

	Beds	*Percent of Beds in State Hospital System* [a]
Completed Before Initiative Began	359	7
Completed After Initiative Began	0	0
Under Construction	752	15
Construction Funded in 1985–86, But Planning or Working Drawings Still Incomplete	636	12
Construction Funds Proposed For 1986–87, But Preliminary Planning Still Incomplete	816	16
Preliminary Planning Funds Proposed For 1986–87, But Schematic Drawings and Budget Estimate Incomplete	1,761	34
Planning Not Started	788	15
TOTALS	5,112	100

[a] Totals do not add to 100 percent due to rounding.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

Table 2 shows the overall status of the department's FLSEI remodeling effort. The department estimates that the hospital system will have a combined total of 5,112 program beds once remodeling is complete. Our analysis indicates that—contrary to the goal of the mental health initiative —most of the state hospital's beds will not be remodeled by the end of 1987. Even with significant improvements in planning and project management, we doubt remodeling will be complete prior to 1990. This is because preliminary planning for remodeling 788 beds will not begin before 1987–88 and it will take at least two years to complete design and construction after the preliminary plans are completed.

The goals of the DMH capital outlay program are unclear. The Governor's Mental Health Initiative was never consolidated into a single report containing clearly stated objectives, estimated costs and a plan of action. Nor has the department ever prepared such a plan. Consequently, it is difficult to ascertain what the administration's long-range goals/objectives are for the state's mental hospitals or how the proposed remodeling program aids in meeting these goals/objectives.

This ambiguity is evident at Atascadero State Hospital. The DMH's proposal for Atascadero adds space for therapy, recreation and offices but *does not enlarge the client's 56 square foot bedrooms.* The space requirement for accreditation is 110 square feet for individual rooms. Thus, the DMH's proposal leaves the bedrooms at one-half the space required for accreditation.

The department maintains that enlarging the bedrooms would be extremely costly and would reduce the bed capacity at the hospital. In addition, DMH contends that activity, office and therapy space is markedly deficient at Atascadero and these additions are necessary if clients are to receive the DMH's objective of 30 hours treatment each week.

The department's plan to add program space and not enlarge the bedrooms is indeed less costly in the short run, but it may result in Atascadero State Hospital not receiving accreditation. If the goal is to meet accreditation standards—as has been the Legislature's intent for other state hospitals—then the savings in the short run may be more than offset by costs later on, since it may be more costly to enlarge the bedrooms at a future date. The DMH needs to address these inconsistencies.

The Program Needs to be Reevaluated to Account for the Mentally Disordered Offender Program. The Mentally Disordered Offender (MDO) program resulted from Chapter 1419, Statutes of 1985 (SB 1296). This act created a mechanism for committing parole-eligible, mentally disordered inmates to DMH hospitals.

Implementation of this act places increased demands on the state hospital system. The DMH needs to develop a comprehensive plan to meet these demands and fulfill these responsibilities. From a capital outlay perspective, three questions arise:

1. How does the department plan to house the projected hospital population of 287 MDO clients in 1986–87 and 1,139 MDO clients in 1995–96? Based on the department's projections of the MDO population, there will be a shortage of at least 150 beds in the state hospital system by 1988–89, with the shortage increasing to over 894 by 1995–96. The department has not submitted a plan to avoid this shortage of beds. Instead, the department proposes a series of FLSEI remodeling projects which, although desirable, will effectively *decrease* bed capacity by 176 or 3.4 percent.

2. What changes in security at state hospitals will be necessary?

The department, thus far, has addressed the need for increased security by:

- halting plans for one legislatively approved project (modular offices at Atascadero) and seeking enactment of legislation (AB 1437) to authorize the use of appropriated funds for more secure permanent offices.
- filing a deficiency authorization under Section 27, Budget Act of 1985, in order to obtain funds for planning security improvements at Patton. (Funds for completion of this project are also proposed in AB 1437.)
- requesting one minor capital outlay project for 1986–87–night lights at Atascadero.

The MDO population influx will certainly require changes in hospital security. The department, however, has not developed either a statewide policy regarding security or a priority list of the necessary security improvements. Without this information, the Legislature cannot evaluate the reasonableness of DMH's proposed security-related changes.

3. Should MDO clients be housed in units with full environmental improvement remodeling? The future MDO client currently is serving time in state prison for committing a violent crime. The department estimates that the MDO client will be more volatile, more aggressive and more escape-prone than DMH's current clientele. Nevertheless, the department plans to remodel units earmarked for the MDO client in an *identical* fashion to the remodeling of units for other clients. This remodeling includes, among other things, personal lockable cabinets and privacy curtains around each bed in a multi-bed room.

The need to improve environmental conditions in the state's hospital has been recognized for a long time. This effort has been consistently supported by the Legislature. Certainly, improvements should also be made for the MDO population. It is unclear, however, if the department's proposed environmental improvements are appropriate for this population. Given the type of client that will be served by the MDO program, the DMH must determine whether or not the proposed improvements would create security problems for either the staff or clients.

Summary

In view of the problems described above, the Legislature needs additional information before it can properly assess the DMH's capital outlay program. Consequently, the DMH should submit a report to the Legislature, prior to budget hearings, detailing the department's:

- specific goals and objectives for the state's mental health hospital system.
- plan for each individual hospital, including population projections, by types of clients, and proposed modifications to provide appropriate physical facilities for these clients.
- timeline and estimated cost for preliminary plans, working drawings and construction of the necessary modifications to each unit in the state's mental health hospital system.
- plan for housing the MDO population.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

- assessment of the appropriate environmental improvements needed for the MDO population.

Construction Funds Budgeted For Five Projects.

We withhold recommendation on $18,404,000 requested in Items 4440-301-036(2), (5), (6), (7) and (9), working drawings/construction funds for five projects, pending receipt or review of preliminary plans and cost estimates.

The Budget Bill requests working drawing/construction funds for five projects, totalling $18,404,000. Each project has been previously approved (in concept) by the Legislature. For four of the five projects, the DMH has not provided (1) preliminary plans, (2) a cost estimate and (3) other information needed to substantiate whether or not the amount requested in the Budget Bill is reasonable or if the project's design reflects legislative intent. Preliminary plans for the fifth project (Napa Fire Detection), arrived on January 31, 1986. Because of time constraints, we have not had sufficient time to review these plans. Accordingly, we withhold recommendation on these projects and urge the DMH and the OSA to expedite completion of the necessary information so that the Legislature can review it prior to budget hearings.

A brief description of each project follows:

Atascadero State Hospital—Office Buildings. At the request of the DMH, the Legislature appropriated $200,000 in the 1985 Budget Act for preliminary plans for six two-story modular office buildings. During the year, the DMH apparently reevaluated the security of modular buildings and now contends that modular structures are not desirable. Consequently, the DMH has delayed the project in order to obtain legislative approval (proposed in AB 1437) to design *permanent* offices. This becomes even more confusing because the Budget Bill amount ($2,225,000) is based on the cost of purchasing and installing *modular* offices. The cost of constructing *permanent* office facilities is unknown, but probably will be higher. At the time this analysis was prepared, we did not know what the cost would be or what office design DMH envisions. Moreover, the OSA has not established a schedule for completion of the preliminary plans.

Metropolitan State Hospital—FLSEI, R&T Building. The Legislature appropriated $120,000 in the 1985 Budget Act to develop working drawings for remodeling the Receiving and Treatment (R&T) building at Metropolitan State Hospital. This project would remodel six units in the R&T building to provide patient privacy in bedrooms, handicapped access and compliance with fire and life safety codes. The budget bill proposes $3,253,000 for construction in 1986–87. In January 1986, the OSA advised the Legislature that the *working drawings* would be complete in March 1986. At the time this analysis was prepared, however, the *preliminary plans* were still not completed.

Napa State Hospital—FLSEI, Building 195. The 1985 Budget Act included $185,000 to *revise* the preliminary plans and working drawings for this project to provide fire and life safety and environmental improvements to Building 195 of Napa State Hospital. Although in January the OSA advised the Legislature that preliminary plans were completed in November 1985, the revision of the preliminary plans has not yet started. The proposed remodeling would provide living quarters for 132 adolescents with acute psychiatric disorders.

Napa State Hospital Fire Detection System. The Legislature appropriated $50,000 in the 1985 Budget Act for preliminary plans and working drawings for a fire detection system and sprinkler system covering seven buildings at Napa State Hospital. Although the OSA also advised the Legislature that these plans were completed in November 1985, the plans were not completed until January 31, 1986. As indicated above, we have not had sufficient time to review them.

Patton State FLSEI And Enclose Porches, "N" Building. The 1985 Budget Act provided $405,000 to revise preliminary plans and working drawings for remodeling the N building at Patton State Hospital for FLSEI. Expenditure of these funds was contingent on the DMH sending the Legislature specific staffing, security, design and cost information. The DMH is developing this information. Thus, preliminary plans and working drawings are still incomplete and the OSA has no schedule for completing this work.

Three New FLSEI Projects

We withhold recommendation on $942,000 for three projects to fund preliminary plans for FLSEI, Items 4440-301-036 (4), (8) and (10), pending receipt of cost estimates and other information.

The department proposes to begin preliminary plans for FLESI remodeling at Atascadero, Napa and Patton. At the time this analysis was prepared, the department had not submitted either an OSA budget estimate or schematic drawings for these projects. Without this information, we have no basis to evaluate the cost or scope of the project. Consequently, we withhold our recommendation to the Legislature, pending receipt of drawings and budgets for these projects and other items as detailed in the descriptions below.

Atascadero State Hospital—Patient Living Areas. The department proposes to alter patient bedrooms and construct additional rooms for therapy, quiet activities *and* staff conferences. The department estimates that the total project cost will be in excess of $6 million. Our analysis indicates that the department's proposal will only gain accreditation for Atascadero State Hospital if the Joint Committee for Accreditation (JCAH) waives many of its guidelines. The Legislature has no indication that JCAH will grant these waivers. Consequently, prior to budget hearings, the department should submit its analysis detailing the specific waivers it needs and explaining why the proposed plan should earn accreditation for Atascadero State Hospital.

Napa State Hospital—Building 199. The department proposes to remodel building 199 for FLSEI. The remodeled building is to provide intensive care to 328 patients. The DMH estimates total cost to be over $5.7 million. The DMH has not detailed the programs to be provided in this building or the extent of remodeling.

Patton State Hospital—Building 30. The department proposes to remodel Building 30 for FLSEI. After remodeling, this building will provide intensive care to 308 patients. The department estimates that the cost of these improvements will exceed $4 million. The DMH has not detailed the programs to be provided in this building or the extent of remodeling.

Emergency ELectrical Power, Phase II

We recommend that the Legislature reduce Item 4440-301-036(3), Emergency Electrical Power Phase II at Atascadero, by $214,000 to correct for overbudgeting.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

The department requests $531,000 to purchase and install one 900 KW diesel engine driven emergency generator. This represents Phase II of a two-phase project to provide sufficient emergency electrical capacity at Atascadero to meet accreditation and licensing standards.

This project is needed, nevertheless, project costs can be reduced by $214,000. The OSA's cost estimate is $321,000—$210,000 less than the requested amount. In addition, based on the State Administrative Manual, the OSA fees for architectural and engineering services are overstated by $4,000. Consequently, we recommend that the Legislature reduce this item by a total of $214,000.

Minor Projects

We recommend that the Legislature reduce Item 4440-301-036(1), minor projects, by $71,000 to eliminate one project at Patton State Hospital because the project is not justified and one project at Metropolitan State Hospital which should be funded from the DMH support budget.

The department proposes six minor projects totaling $396,000. As Table 3 shows, two projects provide handicapped accessibility, one project provides security lighting, and three projects make minor modifications in the hospitals' facilities.

Table 3
Department of Mental Health
1986-87 Minor Capital Outlay Program
(dollars in thousands)

Project Title	*Location*	*Budget Bill Amount*	*Analyst's Recommendation*
Handicapped Accessibility—Phase III	Atascadero	$145	$145
Handicapped Accessibility—Phase III	Metropolitan	27	27
Provide Security Lights	Atascadero	17	17
Floor Covering	Atascadero	136	136
Back Flow Preventer	Patton	44	0
Motor Controls	Metropolitan	27	0
Totals		$396	$325

Our analysis indicates that four of these projects are justified. The other two projects are discussed below.

Backflow Preventers—Patton. The department has not provided sufficient information to establish the need to install the backflow preventers at Patton State Hospital. Backflow prevention has been a code requirement for many years and water systems at state facilities are *constructed* according to the code requirements. The DMH has not identified if or why the current system does not meet code. Thus, we recommend the Legislature delete the $44,000 requested for this project under Item 4440-301-036(1).

Motor Controls—Metropolitan. Finally, the department proposes to replace the motor controls for its refrigeration units at Metropolitan. This is a maintenance item and should be funded in priority order with other maintenance needs from the DMH's support budget. Consequently, we recommend that the Legislature reduce Item 4440-301-036(1) by $27,000 to eliminate funding for this project.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal committees 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 117

Requested 1986–87	$153,771,000
Estimated 1985–86	190,599,000
Actual 1984–85	137,987,000
Requested decrease $36,828,000 (–19.3 percent)	
Total recommended reduction	908,000
Recommendation pending	18,595,000
Transfer funds to the General Fund	43,800,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5100-001-001—EDD, support	General	$29,882,000
5100-001-184—EDD, support	Benefit Audit	2,827,000
5100-001-185—EDD, support	Contingent	19,957,000
5100-001-514—EDD, support	Employment Training	61,437,000
5100-001-588—EDD, support	Unemployment Compensation Disability Insurance	(58,957,000)
5100-001-869—EDD, support	Consolidated Work Program	(69,175,000)
5100-001-870—EDD, support	Unemployment Administration	(318,857,000)
5100-001-871—EDD, support	Unemployment	(2,944,000)
5100-001-908—EDD, support	School Employees	(555,000)
5100-001-932—EDD, support	Local Public Entity Employees	(318,000)
5100-011-890—EDD, support	Federal Trust	(318,857,000)
5100-016-890—EDD, support	Federal Trust	(2,944,000)
5100-021-890—EDD, support	Federal Trust	(69,175,000)
5100-101-588—EDD, local assistance	Unemployment Compensation Disability Insurance	(1,193,980,000)
5100-101-869—EDD, local assistance	Consolidated Work Program	(237,624,000)
5100-101-870—EDD, local assistance	Unemployment Administration	(2,900,000)
5100-101-871—EDD, local assistance	Unemployment	(2,021,200,000)
5100-101-890—EDD, local assistance	Federal Trust	(237,624,000)
5100-101-908—EDD, local assistance	School Employees	(18,286,000)
5100-101-932—EDD, local assistance	Local Public Entity Employees	(3,437,000)
5100-111-890—EDD, local assistance	Federal Trust	(2,024,100,000)
Reimbursements	—	39,668,000
Total		$153,771,000

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Disability Insurance (DI) Position Reductions. Recommend that prior to budget hearings, the department provide the fiscal committees with information documenting the savings which will result from DI work simplification measures. 872
2. Greater Avenues for Independence (GAIN) Program—Position and Fund Transfers. Withhold recommendation on $10,186,000 proposed for reduction from the Food Stamp Job Search, Employment Preparation, and WIN Demonstration programs, pending receipt of an updated estimate from the Department of Social Services (DSS) of the counties' plans to implement GAIN. 873
3. Pension Offset Refund Workload. Recommend that prior to budget hearings, the department provide the fiscal committees with workload information related to refunding pension benefits which were offset against Unemployment Insurance (UI) benefits. 874
4. Tax Collection Positions. Recommend that prior to budget hearings, the department provide the fiscal committees with information regarding the backlog in its tax collection program. 875
5. Operating Expenses. Withhold recommendation on $5,266,000 in additional funds for operating expenses, pending receipt of additional information about the department's operating expense needs and proposed expenditures. 876
6. Job Service Discretionary Funds. Recommend that prior to budget hearings, EDD submit to the fiscal committees, an expenditure plan for $8 million in Job Service discretionary funds. 877
7. California Innovative Military Projects and Career Training (IMPACT) Program. Withhold recommendation on $1.6 million in federal funds for the IMPACT program pending receipt of a report from EDD and the Department of Finance on the reasons for transferring the IMPACT program from the Military Department to EDD. 877
8. Reed Act Funds. Recommend adoption of supplemental report language requiring the department to (a) repay the Reed Act Fund and (b) submit a report setting-forth a repayment plan. 878
9. Automated Applicant Data Base. Withhold recommendation on $1,543,000 requested from the EDD Contingent Fund to develop an automated applicant data base for the Job Service program, pending receipt of an approved Feasibility Study Report. 878
10. ***Technical Budgeting Recommendation. Reduce Item 5100-001-001 by $908,000.*** Recommend reduction of $908,000 to correct for double-budgeting. 879
11. Disability Insurance (DI) Fund—Potential 1986 Deficit. 881

Recommend that prior to budget hearings, the department advise the fiscal committees on (a) the estimated DI Fund balance for 1986 and (b) how it plans to deal with any potential deficit.

12. Disability Insurance Funding Mechanism. Recommend enactment of legislation that establishes a new funding mechanism for the Disability Insurance Fund. 882
13. School Employees Fund. Recommend that the Legislature transfer $88.8 million, rather than $45 million, from the School Employees Fund to the General Fund. 883
14. Job Training Partnership Act (JTPA). Recommend adoption of Budget Bill language (a) prohibiting EDD from establishing an Administrative Cost Pool (ACP) for JTPA and (b) requiring the department to report to the Legislature on the use of JTPA administrative funds. 885

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 UI contributions and (2) employee contributions for DI. It also collects personal income tax withholdings. In addition, the department pays UI and DI benefits to eligible claimants.

The 1985 Budget Act authorized 10,459.7 positions in EDD for the current year. The department, however, administratively increased the number of positions by 411.3, bringing the total number of positions in 1985–86 to 10,871. The increase in positions in the current year is due to (1) increased workload in the UI and DI programs and (2) the implementation of Chapter 1217, Statutes of 1985 (AB 1575), which requires EDD to retroactively refund specified pension benefits which have been offset against UI benefits since 1980.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $153,771,000 from various *state* funds and reimbursements for support of EDD in 1986–87. This is a decrease of $36,828,000, or 19 percent, from estimated current-year expenditures. This reduction is primarily due to the fact that $31.6 million in Employment Training Panel (ETP) funds which were carried over into the current year will not be available in the budget year. Based on past experience, however, it is likely that some amount of ETP funds will be carried forward from the current year to the budget year as well.

General Fund Request

The budget proposes an appropriation of $29,882,000 from the General Fund to support the EDD in 1986–87. This represents a net decrease of $4,949,000, or 14 percent, below estimated current-year expenditures. Table 1 identifies the significant changes in General Fund expenditure levels proposed for 1986–87. Several of these proposals are discussed later in this analysis.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 1
Employment Development Department
Proposed General Fund Budget Changes
1986–87
(dollars in thousands)

	Adjustment	*Totals*
1985–86 expenditures (revised)		$34,831
A. Cost changes		
1. Increase in existing personnel costs	$1,690	
2. Collective bargaining costs	–14	
Subtotal		$1,676
B. Program changes		
1. Elimination of California Jobs Tax Credit	–274	
2. Transfer of EPP to DSS	–6,659	
3. Reduction due to accounting system automation	–218	
4. Reduction in general administration staff	–37	
5. Workload reduction in planning division	–2	
6. Efficiencies in ED&R division	–3	
7. Reduced frequency of tax deposit	–12	
8. Increased tax workload	–580	
Subtotal		–$6,625
1986–87 expenditures (proposed)		$29,882
Change from 1985–86		
Amount		–$4,949
Percent		–14.2

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 $4.08 billion in 1986–87. This is a decrease of $226 million, or 5.2 percent, below the current-year level.

Of the $4.08 billion, $843 million (21 percent) is for various programs and administration, and $3.2 billion (79 percent) is for the payment of UI and DI benefits.

The $843 million proposed for programs and administration is $215 million, or 20 percent, below current-year expenditures. This reduction is due largely to the fact that funds carried over into the current year for the Employment Training Panel (ETP) ($32 million) and the Job Training Partnership Act (JTPA)—local assistance ($127 million) and state-administered programs ($52 million)—will not be available in the budget year. Past trends suggest, however, that a comparable amount of ETP and JTPA funds probably will be carried forward into the budget year. At the time that the budget was prepared, the department could not estimate the amount of funds which might be carried forward from the current to the budget year.

Table 2
Employment Development Department
Budget Summary
1984–85 through 1986–87
(dollars in thousands)

	Actual 1984–85	*Est. 1985–86*	*Prop. 1986–87*	*Change from 1985–86 Amount*	*Change from 1985–86 Percent*
Employment Programs					
Employment Service	$99,590	$111,810	$112,563	$753	0.7%
Work Incentive (WIN) Program	27,606	25,505	23,853	−1,652	−6.5
Food Stamp Recipients	1,624	2,053	563	−1,490	−72.6
Service Centers	6,473	6,816	7,204	388	5.7
Job Agent	2,695	2,903	3,066	163	5.6
Comprehensive Employment and Training Act	191	—	—	—	NA
Youth Employment Services	1,124	982	880	−102	−10.4
Employment Preparation Program	8,366	9,582	9,937	355	3.7
Employment Training Panel	61,479	91,307	59,633	−31,674	−34.7
Contracts W/ Service Delivery Areas	673	—	—	—	NA
Job Training Partnership Act	(258,940)	(486,029)	(306,799)	(−179,230)	(−36.9)
Adult and Youth Training	141,405	208,183	156,673	−51,510	−24.7
Summer Youth	71,508	156,646	80,951	−75,695	−48.3
Displaced Workers	15,223	42,597	23,525	−19,072	−44.8
Educational Linkages	12,571	26,804	16,080	−10,724	−40.0
Administrative	8,690	10,992	10,190	−802	−7.3
Older Worker Training	4,034	11,213	6,026	−5,187	−46.3
Veteran's Programs	—	800	800	—	—
Special Local Projects	—	4,481	442	−4,039	−90.1
Technical Assistance	5,388	24,313	12,112	−12,201	−50.2
Private Industry Council	121	—	—	—	NA
Totals, Employment Programs	$468,761	$736,987	$524,498	−$212,489	−28.8%
Unemployment Insurance (UI)	($2,310,119)	($2,332,202)	($2,270,636)	(−$61,565)	(−2.6)
Administration	220,506	235,386	232,614	−2,772	−1.2
Benefits	2,089,612	2,096,816	2,038,023	−58,793	−2.8
Disability Insurance (DI)	(1,112,996)	(1,209,104)	(1,253,581)	(44,477)	(3.7)
Administration	56,027	59,924	59,601	−323	−0.5
Benefits	1,056,969	1,149,180	1,193,980	44,800	3.9
Personal Income Tax	18,774	21,100	22,150	1,050	5.0
Former Inmates Program	20	—	—	—	NA
Employment Training Tax	(2,688)	(6,314)	(9,604)	(3,290)	(52.1)
Collection	1,489	1,714	1,804	90	5.3
Benefits	1,199	4,600	7,800	3,200	69.6
General Administration	(30,445)	(34,517)	(33,949)	(−568)	(−1.6)
Distributed	(28,204)	(31,693)	(31,415)	(−278)	(−0.9)
Undistributed	2,241	2,819	2,534	−285	−10.1
Total Budget	$3,915,598	$4,308,526	$4,083,004	−$225,522	−5.2%
(Program)	(767,818)	(1,057,930)	(843,201)	(−214,729)	(−20.3)
(UI and DI Benefits)	(3,147,780)	(3,250,596)	(3,239,803)	(−10,793)	(−0.3)
Funding Source:					
General Fund	*$37,494*	*$34,831*	*$29,882*	*−$4,949*	*−14.2%*
Disability Fund	*1,112,439*	*1,208,491*	*1,252,937*	*44,446*	*3.7*
EDD Contingent Fund	*14,690*	*19,709*	*20,957*	*1,248*	*6.3*
Employment Training Fund	*64,167*	*97,621*	*69,237*	*−28,384*	*−29.1*
School Employees Fund	*19,019*	*17,819*	*18,841*	*1,022*	*5.7*
Local Public Employees Fund	*3,633*	*3,548*	*3,755*	*207*	*5.8*
Consolidated Work Fund	*258,940*	*486,029*	*306,799*	*−179,230*	*−36.9*
Federal Unemployment Fund	*2,061,900*	*2,072,100*	*2,016,344*	*−55,756*	*−2.7*
Federal Unemployment Administration Fund	*321,680*	*329,940*	*321,757*	*−8,183*	*−2.5*
Federal Trust Fund	*(2,642,520)*	*(2,888,069)*	*(2,644,900)*	*(−243,169)*	*(−8.4)*
Benefit Audit Fund	*1,048*	*2,482*	*2,827*	*345*	*13.9*
Reimbursements	*20,588*	*35,956*	*39,668*	*3,712*	*10.3*
Totals	$3,915,598	$4,308,526	$4,083,004	−$225,522	−5.2%

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

The budget does not include funding for Merit Salary increases or inflation adjustments to Operating Expenses and Equipment. We estimate that the department will have to absorb approximately $7.2 million in such costs. We do not know how the department will absorb these costs.

ANALYSIS AND RECOMMENDATIONS

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

- An increase of $1,671,000 to complete the Job Service Order Sharing (JSOS) automation.
- A reduction of 47 positions and $2 million due to the elimination of supervisory positions.
- A reduction of $519,000 to reflect termination of the department's operation of the Job Corps in southern California because the Department of Labor has selected another program operator.
- A reduction of $2,814,000 and 107.5 positions due to UI automation efficiencies. These funds will be used to pay for ongoing automation costs.
- A reduction of $3,081,000 and 136 positions due to Tax Accounting System (TAS) automation efficiencies. Of these funds, $1.9 million will be used to support ongoing automation costs.
- A reduction of $1,536,000 and 44.8 positions for food stamp registration to reflect a lower level of federal reimbursements.
- An increase of $3,252,000 and 103.4 positions to reflect increased workload in the UI program.

DEPARTMENTAL SUPPORT

Proposed Staffing Changes Reflect a Variety of Factors

The department proposes to eliminate 660.9 positions in 1986–87. These reductions are partially offset by the proposed addition of 361.9 positions, resulting in a net reduction of 299 positions in 1986–87.

Table 3 categorizes the proposed position changes according to the reason for the change. It also shows the salaries, benefits, and operating expenses corresponding to the staffing changes. Table 4 shows how the staffing changes are distributed among EDD's programs.

Table 3

Employment Development Department
Proposed Position Changes
From 1985–86 to 1986–87
(dollars in thousands)

	Positions			Net Fiscal Effect			
Reason for Change	*Added*	*Reduced*	*Net*	*Salaries*	*Benefits*	*OE&E*	*Total*
Administrative efficiencies	2.0	−137.2	−135.2	−$3,351	−$1,159	−$145	−$4,655
Automation	—	−259.8	−259.8	−4,581	−1,586	15,511	9,344
Operating expenses and equipment	—	—	—	—	—	5,266	5,266
Program terminations	—	−76.0	−76.0	−1,789	−623	−239	−2,651
Program transfers	19.7	−135.5	−116.5	−2,119	−732	−978	−3,829
Workload changes	340.2 [a]	−52.4	287.8	6,566	2,272	387	9,225
Totals	361.9	−660.9	−299.0	−$5,274	−$1,828	$19,802	$12,700

[a] Includes reduction of 60.6 positions for partial-year adjustments.

Table 4
Employment Development Department
Proposed Position Changes by Program
1986–87

Reason for Change	*Adminis-tration*	*Unemployment Insurance*	*Disability Insurance*	*Employment Service*	*Tax Collection*	*Other Employment Programs*	*Total*
Administrative efficiencies	−14.4	−47.3	−66.4	—	−0.9	−6.2	−135.2
Automation	−3.1	−111.5	−1.0	—	−144.2	—	−259.8
Program terminations	—	−3.6	—	−72.4	—	—	−76.0
Program transfers	−2.6	—	—	−113.2	—	—	−116.5
Workload changes	13.1	178.1	31.1	−44.8	109.7	0.4	287.8
Totals	−7.0	15.7	−36.1	−230.4	−35.4	−5.8	−299.0

The six categories into which the proposed position reductions and additions can be divided are as follows:

- ***Administrative Efficiencies.*** The budget proposes to eliminate a net 135.2 positions as a result of streamlining the department's operations. These reductions will result in $4.7 million in savings to various funds. Of the 135.2 positions, 65.5 will result from simplifying the processing of DI claims. Another 13.4 general administration positions will be eliminated due to reduced workload throughout the department. The department proposes to augment the administration of the Job Training Partnership Act (JTPA) by two positions.
- ***Automation.*** The department proposes to reduce its staff by 259.8 positions in order to reflect efficiencies made possible by automation. This reduction frees up $6.2 million. The department proposes to redirect $5.2 million of these savings to cover ongoing automation costs, for a net savings of $912,000 from the position reductions. The largest position reductions and automation costs are linked to automation of the UI program and the TAS. The department also proposes to spend an additional $10.3 million on automation activities, bringing total automation expenditures to $15.5 million.
- ***Program Terminations.*** Expiring federal programs and reductions in federal contracts account for 76 positions proposed for elimination. Programs scheduled for termination include the Targeted Jobs Tax Credit (TJTC), Southern California Job Corps, and the Trade Readjustment Assistance (TRA) Act. In addition, EDD plans to eliminate 13.6 positions in the veterans employment program because federal funds will not be available to support these positions.
- ***Program Transfers.*** Transfer of program responsibilities to other departments accounts for the elimination of 135.5 positions. Of these positions, 124.6 are related to implementation of the Greater Avenues for Independence (GAIN) program. These reductions will be partially offset by the addition of 19.7 positions that are needed to administer the IMPACT program, which the administration proposes to transfer from the Military Department to EDD.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

- *Workload Changes.* The department proposes to delete 52.4 positions due to declining workload. Of these positions, 44.8 result from a reduction in the amount of reimbursements that EDD will receive from the Department of Social Services (DSS) for registering food stamp recipients. These reductions are offset by the addition of 340.2 positions. The additional positions will (1) handle increased workload anticipated in the UI and DI programs and (2) refund pension offsets made to UI benefits, as required by Ch 1217/85 (AB 1575).

As Table 4 indicates, position reductions fall most heavily on the Employment Service (ES), UI and Tax Collection programs. The budget proposes a net reduction of 230.4 ES positions, which is 38 percent of the total for the department. Staff reductions in the ES program result from program transfers to DSS (124.6), program terminations (72.4), and reduced workload in the Food Stamps program (44.8). In contrast, the 165.8 positions the department proposes to eliminate from the UI program result largely from automation (111.5) and administrative efficiencies (47.3). Almost all of the 145.1 positions which the department proposes to eliminate from the tax collection program result from automation efficiencies.

These large reductions will be partially offset by the department's proposals to add: (a) 19.7 positions to the ES program in order to administer the IMPACT program, (b) 181.5 positions to the UI program in order to handle increased claims activity and to refund pension offsets pursuant to Chapter 1217, and (c) 109.7 positions to the tax program due to employer growth and the implementation of Chapter 1217.

Department Has Not Documented DI Efficiencies

We recommend that prior to budget hearings, the department provide the fiscal committees with information documenting (a) its calculation of the savings which will result from the DI work simplification procedures and (b) the actual number of positions needed to process DI claims in the pilot office before and after implementing the new procedures.

The budget proposes to eliminate 65.5 field office positions from the DI program to reflect various changes in the processing of benefit claims (referred to as "work simplification"). The department indicates that elimination of the positions will free-up $1,925,000 which would revert to the DI Fund. These proposed position reductions are based on the results of "work simplification" changes made in one DI field office.

In the current year, EDD has implemented several changes in order to process DI claims more efficiently. For example, previously, DI claims examiners reviewed claims for payment, documented their decision, and wrote instructions to key data operators for entering this information into the department's computer system. As a result of recent changes, the examiners now enter the information directly into the computer, eliminating the need to send the claim through the key data operator. The department advises that the efficiencies were implemented in all DI field offices between April and September 1985.

The department calculated the savings which will result from these efficiencies in 1986–87, based on the "best guess" of the manager of the "pilot" office in which the measures were first implemented. This manager estimated that the simplification procedures would enable the department to process its DI workload with approximately 8 percent fewer staff statewide. The department, however, could not provide us with any documentation which (a) supports the 8 percent savings estimate or (b) demonstrates the *actual* savings which occurred in the pilot office.

Without this information, we have no basis on which to evaluate the department's proposal and to determine whether the number of positions proposed for elmination is appropriate. Accordingly, we recommend that prior to budget hearings, the department provide the fiscal committees with information documenting (1) its calculation of the savings resulting from DI work simplification procedures and (2) the actual number of positions needed to process DI claims in the pilot office before and after implementing the work simplification procedures.

Transfer of Positions and Funds for Implementation of GAIN

We withhold recommendation on 124.6 positions and $10,186,000 proposed for deletion from the Food Stamp Job Search, Employment Preparation, and WIN Demonstration programs, pending receipt of an updated estimate from the Department of Social Services (DSS) of the counties' plans to implement GAIN during 1986–87.

The budget proposes to delete 124.6 positions and $10,186,000 from three programs which provide employment services to welfare recipients. The funds will be transferred to DSS for use in implementing the GAIN program. Because DSS is the lead agency for GAIN, EDD has relied on DSS' estimates in proposing position reductions and the transfer of funds. We have found DSS' estimates, however, to be out of date (please see Item 5180-151-001). Specifically, we have doubts about DSS' estimate of (1) when counties will implement GAIN, (2) how many counties will contract with EDD to provide employment services, and (3) the level of EDD services that will be requested by the counties. The actual number of positions EDD will need in order to provide these services could be very different from what is shown in the budget if the DSS' assumptions prove to be wrong.

Food Stamp Job Search. The department proposes to eliminate 48.6 positions and $1.6 million in reimbursements for providing job search services to food stamp recipients. Currently, EDD provides these services in seven counties through a contract with DSS.

The budget proposal assumes that the seven counties, instead of EDD, will provide job search services to food stamp recipients during 1986–87. The department's budget proposal, however, states that it is in the process of surveying the seven counties to determine if, indeed, they want to provide these services or contract with EDD for them. Without this information, we are unable to determine whether the number of positions proposed for elimination is appropriate.

WIN-Demonstration Program and Employment Preparation Program. The department proposes to delete 76 positions and $1.9 million currently used to provide employment services to AFDC recipients under the WIN-Demonstration (WIN-Demo) program and the Employment Preparation Program (EPP). The EDD expects that the workload in the WIN-Demo program and EPP will decrease annually by one-third during the next three years as GAIN is implemented throughout the state.

As a result, the EDD estimates that it will require 76 fewer positions for WIN-Demo and EPP in 1986–87. The department further assumes that

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counties will contract with it for services equivalent to 20 percent of the workload it lost as a result of implementation of GAIN. The EDD indicates that it simply made its "best guess" that counties would contract back for 20 percent of the workload now handled by the department.

The department will have a better estimate of its future workload after the DSS has had an opportunity to review county plans during the spring of 1986.

Transfer of EPP Funding. Currently, the EDD provides through the EPP intensive job search and employment services to AFDC applicants and recipients in six counties. The funds for support of the programs are contained in EDD's budget.

The budget proposes to transfer funding for EPP ($6.6 million General Fund) from EDD to DSS. The budget further proposes that DSS return the entire $6.6 million to EDD as a reimbursement in order that EDD can continue to provide EPP services to counties during 1986–87.

Eventually, DSS plans to incorporate EPP into the GAIN program. In the meantime, DSS will give the EPP counties the option to (1) administer the program themselves or (2) contract with EDD to provide employment services to AFDC recipients.

We have two primary concerns regarding the department's proposal.

1. We do not know whether all six EPP counties will, in fact, choose to contract with EDD for employment services to AFDC recipients. If fewer counties opt for EDD services, EDD will have excess authorized positions.

2. Some counties may want EDD to provide more services under GAIN than it provides currently under EPP. In this case, EDD will need additional positions to deliver the services requested by the counties. For example, Kern County's GAIN plan indicates that the county wants EDD to report GAIN participation to social services staff, maintain job services case records, and report data collected for program evaluation to the welfare departments. These activities would be in addition to the traditional employment services provided by EDD staff.

The DSS has not completed its survey of counties' plans for implementing GAIN and securing related employment services. Consequently, we have no basis on which to determine whether EDD will have adequate positions to provide the services requested by counties in 1986–87. For this reason, we withhold recommendation on the proposed reduction of 124.6 positions and $10,186,000, pending an updated estimate from the DSS on counties' plans to implement GAIN.

Department Should Revise Its Workload Estimate for Refunding Pension Offsets

We recommend that prior to budget hearings, the department provide the fiscal committees with specified workload information related to refunding pension benefits which were offset against UI benefits.

Chapter 1217, Statutes of 1985 (AB 1575), requires EDD to reimburse individuals whose past UI benefits have been reduced to reflect the receipt of social security benefits or other specified pension benefits. The reimbursements will compensate for the offsets retroactive to November 1, 1980. The measure also requires the department to refund overpayment assessments and penalties received since March 1, 1984, related to these pension offsets.

The budget requests 242.6 positions and $6,097,000 in federal funds in order to implement the provisions of Chapter 1217 in 1986–87. The budget further requests $62 million in federal funds to refund the offset for pensions made to UI benefits since 1980. The Department of Finance has approved administratively an increase in the current year of 175.1 personnel-years and $5,739,000 to administer the program and $62,200,000 to pay refunds. Although the department advises that the Department of Labor will provide federal funds to cover these costs, it was unable to document this assertion.

The department originally estimated that it would refund a total of $124.4 million in benefits to 138,500 UI claimants during the current and budget years. The department also estimated that administrative costs for refunding the benefits would total $11.8 million. The department now indicates that, based on its actual experience to date, it may have overestimated the workload generated by Chapter 1217. In general, the department indicates that it has received fewer claims for repayment than it originally anticipated. At the time we prepared this analysis, however, the department could not provide us with actual workload data.

To the extent that the department's estimates are, in fact, overstated, the department will be overbudgeted in the current year, as well as in the budget year. In order for the Legislature to more accurately determine the amount of funds needed to implement Chapter 1217, we recommend that prior to budget hearings, the department provide the fiscal committees with (a) its actual workload and funding requirements for support and benefit payments so far and (b) its estimate of workload and funding requirements for the remainder of 1985–86, as well as for 1986–87.

Legislature Needs Documentation on Tax Workload and Backlog

We recommend that prior to budget hearings, the department provide the fiscal committees with specified documentation on the backlog in its tax collection program.

The budget requests 18.9 positions and $580,000 from the General Fund in order to handle increased workload in its tax collection program. The increase is caused by the growing number of employers in the state. The department indicates that the increased workload has resulted in a serious backlog in the tax collection program. The backlog exists in the processing of employer registration, change of employer status, correction of duplicate accounts, and collection of overdue taxes. The department states that to the extent it is unable to perform these functions in a timely manner, the quality of services to employers and the state's ability to collect revenues for the General Fund, UI Fund, DI Fund, and the Employment Training Fund will suffer.

The department advises us that the federal government has provided the state with funds for the equivalent of 178.5 personnel-years in order to cover the UI program's share of the tax collection workload. Based on the state/federal cost-sharing ratio, EDD would match the federal funds with state funds for an equivalent 102.1 personnel-years. The department maintains, however, that it only needs a total of 35.6 personnel-years (which is equal to 20 percent of the federal positions), due to efficiencies made possible by automation. (The department will use the rest of the federal funds to support part of its operating expenses in the current and budget years.) Accordingly, the department proposes to add only 18.2 personnel-years for state-funded tax collection activities.

The department has not provided the Legislature with the workload and backlog data it needs in order to assess the budget proposal. Specifically, the department has not documented:

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- The extent of the backlog in various tax collection functions.
- The number of positions required to reduce the backlog.
- How automation efficiencies will enable it to handle increased workload and reduce the backlog with 18.9 positions.

Consequently, we recommend that prior to budget hearings, the department provide the fiscal committees with the following information: (1) workload data for each of the tax collection functions, (2) data on the actual backlog in each tax function, (3) the number of positions needed to reduce the backlog, and (4) the impact of the backlog on services to employers and revenue collection.

Department's Operating Expense Request Is Not Adequately Justified

We withhold recommendation on $5,266,000 in additional funds requested by the department for operating expenses and equipment, pending receipt of information that (1) documents the need for the additional funds in each expense category and identifies how the department proposes to spend these funds and (2) identifies the additional amount of funds needed, by expense category, for each program.

The budget requests $241.7 million for EDD's operating expenses and equipment in 1986–87. Of this amount, $132.3 million, or 55 percent, would be used to support training contracts and other client services. The remaining $109.3 million would be used for normal operating expenses and equipment such as rent, travel, and computers.

Current-Year Budget. The *Supplemental Report of the 1985 Budget Act* required EDD to submit a report to the Legislature, by November 1, 1985, on its operating expense needs for 1985–86 and the department's process for determining those needs.

The department's report outlines a number of steps the department has taken, or plans to take, in order to improve its internal budgeting process for operating expenses. The report also identifies a shortfall of $6.7 million in funding for operating expenses during the current year. To cover the shortfall, the department has requested an additional $6.7 million for expenses such as:

- Telephone lines to support increased automation.
- In-state travel.
- Repairs and alterations on EDD's facilities.
- Consulting services for the TAS.
- Replacement of cars, copiers, and furniture.

The department proposes to fund this current-year shortfall from two major sources: (1) a $2 million deficiency appropriation from the EDD Contingent Fund and (2) $4.4 million in additional federal funds made available to handle the federal program share of increased tax collection workload. The remaining $300,000 will be financed from various special funds.

We have reviewed the department's report and believe that it provides adequate documentation to justify its proposed request for additional funds in the current year.

Budget-Year Proposal. On the other hand, we do not believe that the department has done an adequate job of justifying its request for $5.3 million to meet what it asserts is a "shortfall" in its operating expenses for the budget year. This is because the department *arbitrarily* allocated the

$5.3 million among seven major expense categories for the purposes of developing its budget for 1986–87. The department advises that these allocations do not reflect the amount it actually needs for each expense category or how it will spend these funds in 1986–87. The department advises that it intends to develop during the next several months a more detailed request for operating expenses to be incurred during 1986–87.

Until this information is available, the Legislature cannot determine the department's true operating expense needs. For this reason, we withhold recommendation on the department's request for $5,266,000 in additional funds for operating expenses, pending receipt of information that (1) documents the need for the additional amount in each expense category and describes how the department proposes to spend these funds and (2) identifies the additional amount of funds needed, by expense category, for each program.

Legislature Needs Plan for Discretionary Funds

We recommend that prior to budget hearings, the EDD submit to the fiscal committees a proposal discussing how the department plans to spend the Job Service 10 percent discretionary funds.

Federal law permits the state to use up to 10 percent of its Job Service grant funds for various discretionary activities. 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 budget proposes $8,034,000 for discretionary activities in 1986–87.

The department has not been able to provide us with specific plans for the use of its 10 percent discretionary funds in 1986–87. We believe the Legislature should have an opportunity to review the proposed use of discretionary funds in 1986–87. Accordingly, we recommend that prior to budget hearings, the department submit to the fiscal committees a proposal discussing the department's plans to spend the 10 percent discretionary funds.

Transfer of the IMPACT Program is Inconsistent with Legislative Intent

We withhold recommendation on $1.6 million in federal funds for the IMPACT program pending receipt of a report from EDD and the Department of Finance on why they propose to transfer the program from the Military Department to EDD.

The budget proposes to transfer the IMPACT program from the Military Department to EDD in the budget year. The department proposes to support the IMPACT program using $1.6 million of the 10 percent federal discretionary funds available under the Job Service program. This amounts to 20 percent of the discretionary funds available in 1986–87.

The Military Department has administered the IMPACT program since 1977. This program provides basic skills, training, employment counseling, and job placement to economically disadvantaged youth, with an emphasis on preparing them for military service. In the current year, the IMPACT program will receive a total of $1,850,000 from five sources: (1) General Fund support through the Military Department ($232,000), (2) EDD's Job Service discretionary funds ($617,000), (3) JTPA discretionary funds ($188,000), (4) JTPA local assistance through Private Industry Councils ($393,000), and (5) Employment Preparation Program funds ($420,000).

The *Supplemental Report of the 1985 Budget Act* stated the Legis-

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lature's intent that the IMPACT program be funded through General Fund support in the Military Department rather than continued through discretionary fund support from the EDD. The administration, however, proposes to transfer IMPACT to the EDD, where it would be funded entirely using $1.6 million in federal Job Service discretionary funds.

Therefore, we withhold recommendation on $1.6 million for the program pending receipt of a report during budget hearings from EDD and the Department of Finance explaining their reasons for transferring the program.

AUTOMATION ACTIVITIES

Department Needs Plan for Repaying Reed Act Funds

We recommend that the Legislature adopt supplemental report language requiring the department to (1) repay the Reed Act Fund for monies which it has used to automate the UI program and (2) submit a report by October 1, 1986, which identifies its plan for repaying this fund.

The budget proposes to use $2,944,000 in federal Reed Act funds to purchase computer equipment for the UI program in 1986–87. This is in addition to the $1.7 million in Reed Act funds which were appropriated by the 1985 Budget Act for UI automation in the current year.

The Reed Act funds are excess federal unemployment taxes that were collected in the 1950s and turned over to the states by Congress to pay UI benefits or administrative costs. Federal law allows EDD to use Reed Act funds for UI capital outlay projects and for automation activities.

Under federal law, the department may repay, from the UI program budget, funds which it "borrows" from the Reed Act for the purchase of capital assets. The repayment, thus, serves to replenish the funds available to the EDD for future projects.

We believe that the Reed Act is an appropriate funding source for UI automation projects. The funds, however, will not be available for similar projects in the future unless the department repays the Reed Act Fund for the monies it is using for automation in the current ($1.7 million) and budget ($2.9 million) years. Although the department indicates that Reed Act funds will be repaid from savings generated by automation of the UI program, it does not have a plan for doing so.

In order to ensure that the department does not deplete this valuable source of funds, we recommend that the Legislature adopt supplemental report language which requires the department to (1) repay the Reed Act Fund and (2) submit a report by October 1, 1986, which identifies its plan for repaying the fund. The following supplemental report language is consistent with this recommendation:

"The Employment Development Department shall repay the federal Reed Act funds it has used for automation of the Unemployment Insurance program. In addition, the department shall submit a report to the Legislature by October 1, 1986, which identifies its plan for repaying the Reed Act funds."

No Approved FSR for Proposed Automation Project

We withhold recommendation on $1,543,000 requested from the EDD Contingent Fund to develop an automated applicant data base for the Job Service program, pending the receipt of an approved Feasibility Study Report (FSR).

The budget proposes to spend $1,543,000 from the EDD Contingent Fund to develop an automated applicant data base for the Job Service (JS) program. This system will link UI and JS applicants with employer job orders. Specifically, the budget proposal will allow district offices using computers to match the listing of employer jobs with the qualifications of prospective employees.

Of the amount requested, the EDD proposes to use $1.4 million for a multiple-year contract to design and install the applicant data base system. The remaining $133,400 will be used to pay Health and Welfare Data Center charges in 1986–87.

At the time we prepared this analysis, the Office of Information Technology (OIT) had not reviewed the FSR. Without an approved FSR, we are unable to assess the fiscal implications of either the budget change proposal or the project itself. As a result, we withhold recommendation on the proposed expenditure of $1,543,000 from the EDD Contingent Fund for an automated applicant data base, pending receipt of an approved FSR from OIT.

Technical Budgeting Issue

We recommend a reduction of $908,000 in General Fund support for Job Service Order Sharing computer operation and maintenance in order to correct for double-budgeting.

The budget requests $1,170,000 from the EDD Contingent Fund for the operation and maintenance costs in 1986–87 of Job Service Order Sharing (JSOS) computers to be installed in the current year. Based on discussions with the department and our review of supporting documents, we conclude that the department has already included $908,000 from the Contingent Fund for this purpose in the baseline budget for the JSOS program. We recommend that the $908,000 which is double-budgeted from the Contingent Fund be used in lieu of a like amount from the General Fund.

DISABILITY INSURANCE PROGRAM

The Disability Insurance (DI) program provides cash benefits to individuals who are unable to work because of a physical or mental illness or injury. In general, an individual is eligible for benefits if his/her illness or injury is not work-related. The EDD administers the DI program in California.

Currently, DI benefits range from $50 to $224 a week for up to 52 weeks. The actual benefits an individual receives depend on past contributions to the DI Fund and the nature of the individual's disability. The department estimates that 651,000 persons will receive an average weekly benefit of $160 in 1986.

The DI program is financed by worker contributions collected through a payroll tax. The amount of the worker's contribution is based on a percentage of the worker's wages, up to a maximum wage of $21,900. The tax rate was 0.6 percent of wages in 1985 and is 0.9 percent in 1986. In 1985, an employee whose wage was $21,900—the taxable wage ceiling—contributed $131 to the DI Fund.

In 1980, the Legislature enacted a variable tax rate formula (VTRF) which is the mechanism used to set the annual DI tax paid by employees in California. The formula was intended to maintain the fund balance at 25 percent to 50 percent of fund disbursements. This level was supposed to prevent the fund from developing an excessive balance, while at the same time ensuring enough funds to pay benefits.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Deficit in the DI Fund in 1985

In September 1985, the department notified the Legislature that there could be a deficit in the DI Fund at the end of both 1985 and 1986. At the time we prepared this analysis, the department advised us that the deficit in the DI Fund reached $32 million during the second week in January 1986. Because of this deficit, it was necessary for the department to borrow money from the General Fund. The department, however, only needed to borrow $17.3 million from the General Fund because it began to receive employee contributions at the beginning of January. Some of these funds have been repaid already; the remainder will be repaid by March 31, 1986. Nevertheless, the department estimates that the fund will have a deficit of $44 million at the end of 1986 and the beginning of 1987 because payments from the fund will exceed revenues.

Reasons for 1985 DI Fund Deficit

Two factors contributed to the deficit in the DI Fund at the end of 1985:

- The number of first claims paid and the duration of claims grew significantly between 1984 and 1985.
- The tax rate did not generate adequate revenues.

The combination of these factors depleted the fund in 1985 and will result in another deficit in 1986.

Large Growth in Claims and Duration. The department indicates that disbursements from the DI Fund increased by 23 percent between 1984 and 1985. This increase was due mainly to the fact that (1) the number of first claims paid increased by 4.5 percent during this period and (2) the duration of such claims increased by 14 percent. The increase in first claims paid reversed a trend of declining claims during the last several years.

The department underestimated the number of people who would submit DI claims, and the length of time they would collect such benefits, during 1985. Table 5 compares the department's estimates of claims activity with actual experience for 1985. The table also displays actual claims experience for 1984. The table shows that the department underestimated the number of first claims paid by 5.1 percent and underestimated the duration of claims by 9.4 percent.

Table 5

Disability Insurance Program
Estimated and Actual Claims Activity
1984 through 1985

		1985			
	1984	*Est.* [a]	*Actual*	*Difference Between EDD's Est. and Actual*	*Percent Change 1984 to 1985 (Actual)*
First claims paid	619,344	615,839	647,280 [b]	5.1	4.5%
Average duration (weeks)	10.2	10.6	11.6	9.4	13.7
Total disbursement (in millions)	$991	$1,057	$1,224	15.8	23.5
Total revenues (in millions)	$1,147	$896	$918	2.5	−20.0

Source: EDD, Employment and Research Division.
[a] Employment Development Department's Forecast for 1985 dated November 1984.
[b] Actual data through November 1985, plus estimate for December 1985.

The department indicates that the sudden increase in claims activity during 1985 was partly related to legislation enacted in 1984 which raised DI benefits and increased the length of time for which an individual could collect benefits. The department indicates, however, that the growth exceeded that which can be attributed to these legislative changes. The department is unable to fully explain the increase in the number and duration of claims, other than to indicate that it is linked to social and economic factors.

Tax Rate Generates Insufficient Revenues. Increased benefit costs alone did not result in the DI Fund deficit in 1985. Revenues which support the fund also declined by 20 percent between 1984 and 1985, largely due to a 0.3 percentage point drop in the tax rate—from 0.9 percent in 1984 to 0.6 percent in 1985. This reduction in the tax rate was due primarily to two factors. First, the state accelerated the collection of various revenues, including contributions to the DI Fund, starting in 1984. This accelerated collection of revenues caused the balance in the DI Fund on June 30, 1984, to be $90 million higher than it otherwise would have been. This, in turn, led to a 0.2 percentage point drop in the 1985 tax rate. Second, the 1984 legislation which increased benefits also increased the taxable wage ceiling in order to supplement revenues. This further inflated the amount of money in the fund as of June 30, 1984. The VTRF interpreted the increase in the fund's balance as a large improvement in fund adequacy. Under the formula, the increased fund balance resulted in a decline in the tax rate of 0.3 percentage points.

Potential Deficit in the DI Fund During 1986–87

We recommend that prior to budget hearings, the department advise the fiscal committees on (1) its most recent estimate of the DI Fund balance for December 1986 and January 1987 and (2) how it plans to deal with any potential deficit in the fund.

At the time we prepared this analysis, the department estimated that there would be a deficit in the DI Fund of $44.4 million during December 1986 and January 1987. This estimate assumes a tax rate of 0.9 percent during 1986. The deficit could turn out to be higher or lower than $44 million, depending on (1) the actual number of claims filed in 1986, (2) the duration of claims, (3) the average dollar amount of claims, (4) the strength of the economy, and (5) the number of employees contributing to the DI Fund.

If a deficit in the fund does occur in 1986, the EDD could deal with it in a number of ways.

- The department could request another *short-term loan from the General Fund.* As in 1985–86, the loan would be repaid early in 1987.
- The administration could invoke emergency authority under the Government Code (Section 2604) to *temporarily reduce benefits or change the contribution rate* in order to prevent insolvency in the fund.
- The EDD could request one-time authority from the Legislature to raise the formula-set *tax rate* by an amount sufficient to keep the fund solvent.
- The EDD could seek authority to raise the *taxable wage ceiling* in order to enhance revenue levels in the latter part of 1986.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

In order to assure that the Legislature has the information it needs to assess the condition of the DI Fund, we recommend that prior to budget hearings, the department advise the Legislature on: (1) its most recent estimate of the DI Fund balance for December 1986 and January 1987 and (2) how it plans to deal with a deficit in 1986 should one occur.

DI Funding Mechanism Needs Improvement

We recommend that the Legislature enact legislation establishing a new funding mechanism for the DI Fund which incorporates specified features missing from the current formula.

Chapter 903, Statutes of 1983 (AB 518), requires EDD to submit to the Legislature by February 1, 1986, a report on the variable tax rate formula. At the time this analysis was prepared, we had not received the report.

Based on our review, we conclude that the following features, which are missing from the present VTRF, should be included in any future DI financing mechanism.

- ***The DI Financing Mechanism Should Incorporate a Significant Amount of Historical Experience.*** The VTRF uses the tax rate in the current year as the starting point for determining the tax rate to be used in the next year, regardless of whether the current rate reflects the most recent trend in claims and disbursements. For example, the tax rate for 1986 is based on adjustments to the 1985 tax rate which failed to generate adequate revenues for 1985. Consequently, the tax rate for 1986 probably will not generate sufficient revenues to cover disbursements in 1986. In addition, the formula establishes the new tax rate based on changes in the fund condition over a relatively short period of time—six months. We believe that the calculation of the DI funding level should reflect a longer period of actual disbursements and revenues, as well as some reasonable assessment of future trends.
- ***The DI Financing Mechanism Should Be Less Volatile.*** The current VTRF reacts to small changes in the condition of the DI Fund with large changes in the tax rate. For example, the department estimates that if disbursements from the fund had been $25 million lower in June 1985, the tax rate for 1986 would have been 0.7 percent rather than 0.9 percent. The difference of 0.2 percent would have generated $260 million *less in revenues* for 1986, even though disbursements declined by only $25 million.
- ***The DI Financing Mechanism Should Be Based on a More Realistic Point-In-Time Estimate of the DI Fund Balance.*** Currently, the department determines the upcoming year's contribution rate, based on the fund's condition as of June 30. The June 30 fund balance, however, is not an accurate predictor of the year-end balance. In fact, the DI Fund balance typically is largest in June and smallest in December. Because the balance in the fund generally declines between June and December, an estimate made later in the year would more closely approximate the actual end-of-year fund condition. We believe it would be preferable to calculate the new tax rate based on data through September 30 rather than June 30. This would still allow EDD to announce the annual contribution rate for the upcoming year by November 1, in order to provide 60 days for implementation.

In short, we conclude that DI funding mechanism should be improved in order to reduce the risk of end-of-year deficits in the fund. Accordingly, we recommend that the Legislature enact a new DI tax rate formula which: (1) incorporates a significant amount of historical experience, (2) is less volatile, and (3) uses a more realistic point-in-time estimate of the DI Fund balance.

SCHOOL EMPLOYEES FUND

The State Should Recover Its Full Share of the Surplus in the School Employees Fund

We recommend that the Legislature transfer $88.8 million, rather than $45 million, from the School Employees Fund to the General Fund for an increase in General Fund revenues of $43.8 million.

The budget proposes to transfer $45 million from the School Employees Fund (SEF) to the General Fund in 1986–87.

The SEF is a special fund in the State Treasury which receives contributions from school district employers in order to pay the unemployment claims from former school employees. In 1984–85, 1,179 employers participated in this program, including K–12 school districts, community college districts, and county administrative offices.

The department estimates that the SEF will have a reserve of $77 million at the end of 1985–86—up from $38.5 million at the end of 1984–85. The administration cites three reasons for the large increase in the SEF reserve: (1) an increase in the amount of school employee wages, (2) a decrease in UI benefits claimed by former school employees, and (3) an increase in school employer's contributions to the SEF.

Since the department has determined that the SEF requires a prudent reserve of $20 million, the fund will have an excess balance of $57 million as of June 30, 1986. The administration proposes to recapture for the General Fund $45 million, or 79 percent, of the excess balance. The administration's rationale for transferring this amount of money to the General Fund is that the state pays approximately three-quarters of the costs of financing public schools and therefore should recover its proportionate share of the surplus.

We conclude that the administration's rationale for recapturing only 79 percent of the excess reserve balance in the SEF betrays a fundamental misunderstanding both of the way school apportionment funds are provided generally, and of the way such funds are provided to cover the school districts' costs of UI premiums.

Under the state's "revenue limit" system of funding schools, each school district has a specific revenue limit per unit of average daily attendance (ADA). The school finance system guarantees each school district an amount of general purpose funds equal to its revenue limit times its ADA, with this amount financed through a combination of local property taxes and state General Fund aid.

For the vast majority of school districts, the amount of local property taxes received is not sufficient to fund the revenue limit guarantee amount. For these districts, the state provides sufficient funds to make up the difference between the guarantee and the amount of property taxes raised by the district. Thus, the state provides funding for *100 percent* of the *marginal* change in each school district's revenue limit "guarantee."

Moreover, Section 42241.7 of the Education Code provides that, in any year in which a school district's costs for unemployment insurance premiums paid to the School Employees Fund exceeds the amount paid by the

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

district for this purpose in 1975–76, the district may increase its revenue limit by the amount of the excess costs. Because the state funds 100 percent of the marginal increase in a district's revenue limit guarantee, the revenue limit "add-on" for unemployment insurance is paid in full by the state.

In 1984–85, the most recent year for which data is available, the state General Fund cost of funding the unemployment insurance "add-on" was $24.6 million. In the same year, the unemployment insurance premiums charged to school districts exceeded the costs of providing benefits by $24.1 million. Obviously, the full amount of these excess costs was paid by the state.

Our analysis therefore indicates that it would be appropriate for the state to recapture the *full amount* of the $57 million in excess reserves in the SEF, which will be available at the beginning of 1986–87—rather than 79 percent of this amount, as proposed by the Governor. The state also can recapture an additional $31.8 million which will be available at the end of 1986–87 (June 30, 1987). Thus, a total of $88.8 million is available for transfer to the General Fund. In so doing, the state will merely be taking back funds which the General Fund paid in the first place. Furthermore, recapturing these funds would pose no fiscal risk to school districts. If the Legislature transfers $88.8 million to the General Fund, $20 million will still remain as a prudent reserve. *This reserve exceeds the actual benefits paid out by the fund in 1984–85, and the estimated benefit payments in both 1985–86 and 1986–87.* If, however, the $20 million reserve were not sufficient to cover benefit payments, thereby necessitating a future increase in contribution rates, the full amount of this increase would be paid for by the state General Fund.

Accordingly, we recommend that the Legislature recapture the full amount of the $88.8 million excess reserve balance (rather than 79 percent), for an equivalent increase in General Fund revenues.

JOB TRAINING PARTNERSHIP ACT

The Job Training Partnership Act (JTPA) provides employment and training assistance to disadvantaged adults and youth, displaced workers, and older workers. The federal legislation requires both state and local government participation in the implementation and operation of JTPA programs. The federal Department of Labor allocates JTPA funds to the states on a formula basis, according to the relative population, level of unemployment, and number of economically disadvantaged individuals in each state.

Budget Estimates Federal Funding to Remain Level in 1986–87

Table 6 shows the federal funds for JTPA in the prior, current, and budget years. The table shows that the current year budget includes $179 million in JTPA funds carried over from 1984–85. These funds will not be available in 1986–87. When expenditures are adjusted to account for this carry-over, the federal funding levels for 1985–86 and 1986–87 are identical. Table 6 does *not* reflect the 8.3 percent cut in funding for JTPA during federal fiscal year (FFY) 1986 that the Congress approved in December 1985. Nor does it reflect any reductions which may occur as a result of the Gramm-Rudman-Hollings Deficit Reduction Amendment.

Table 6
Job Training Partnership Act
Federal Funding Levels
1984–85 through 1986–87
(dollars in thousands)

Program	Actual 1984–85	Est. 1985–86	Prop. 1986–87	Change From 1985–86 Amount	Change From 1985–86 Percent
Title II—local programs:					
Adult and Youth Program	$141,405	$208,183	$156,673	–$51,510	–24.7%
(carry-over)	—	(51,510)	—	—	—
Summer Youth programs	71,508	156,646	80,951	–75,695	–48.3
(carry-over)	—	(75,695)	—	—	—
Subtotals	$212,913	$364,829	$237,624	–$127,205	–34.9%
(carry-over)	—	($127,205)	—	—	—
Subtotals, less carry-over	$212,913	$237,624	$237,624	—	—
Title II—state programs:					
Educational Linkages	$12,571	$26,804	$16,080	–$10,724	–40.0%
Incentive Grants	5,388	24,313	12,112	–12,201	–50.2
Administration	8,690	15,473	10,632	–4,841	–31.2
(special projects)	—	(4,481)	(1,936)	—	—
Older Workers	4,034	11,213	6,026	–5,186	–46.2
Title III—Displaced Workers	15,223	42,597	23,525	–19,972	–44.8
Title IVC—Veterans	—	800	800	—	—
Private Industry Council	121	—	—	—	—
Subtotals	$46,027	$121,200	$69,175	–$52,025	–42.9%
(carry-over)	—	($52,025)	—	—	—
Subtotals, less carry-over	$46,027	$69,175	$69,175	—	—
Totals	$258,940	$486,029	$306,799	–$179,239	–36.9%
(carry-over)	—	($179,230)	—	—	—
Totals—less carry-over	$258,940	$306,799	$306,799	—	—

Department Proposes Administrative Cost Pool

We recommend that the Legislature adopt Budget Bill language (1) prohibiting EDD from establishing an administrative cost pool for JTPA and (2) requiring the department to report to the Legislature by October 1, 1986, on the use of JTPA administrative funds.

Federal law allows states to use up to 5 percent of their Title IIA funds—adult and youth programs—to support the administration of the JTPA program. The budget proposes to use $10.6 million for state administration of the JTPA programs in 1986–87.

In order to increase the amount of funds available for state administration of the JTPA program, the department proposes to establish an administrative cost pool (ACP). Under an ACP, the department would augment its 5 percent administrative budget with funds from other JTPA state programs, such as older workers, educational linkages, and technical assistance and incentive funds. To date, the department has proposed to make only technical assistance and incentive funds (referred to as 6 percent funds) subject to the ACP.

Table 7 compares EDD's administrative budget for JTPA in 1985–86 and 1986–87. As the table shows, in 1985–86 the department plans to augment its administrative budget with $660,000 from an ACP in 6 percent funds,

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

for a total administrative budget of $10,704,000. Of this amount, the department estimates that it will spend $9,783,000 for administrative costs and $921,000 for special local projects. In 1986–87, the department proposes to use $629,000 in 6 percent funds, along with $10,631,000 in 5 percent funds, for a total administrative budget of $11,260,000. This includes $9,324,000 for administration and $1,936,000 for special projects. Thus, although the department expects the cost of JTPA administration to decrease by 4.7 percent in the budget year, it is proposing to spend more than twice as much for special projects using funds raised through an ACP.

Our analysis indicates that the department does not have sufficient grounds to implement an ACP at this time. The department acknowledges that, currently, it does *not need* to augment its budget through the ACP in order to fully fund its administrative costs. The purpose behind the proposed ACP is to establish a precedent for future years when 5 percent funds might be scarce.

Table 7
Job Training Partnership Act
Administrative Budget
1985–86 and 1986–87
(dollars in thousands)

			Change From 1985–86	
	Est. 1985–86	*Prop. 1986–87*	*Amount*	*Percent*
Administration	$9,783	$9,324	–$459	–4.7%
Special local projects	921	1,936	1,015	110.2
Totals	$10,704	$11,260	$556	5.2%
Funding Source				
5 percent funds	$10,045	$10,631	$586	5.8%
6 percent funds	660	629	–31	–4.7

Indeed, Table 7 indicates that the $629,000 in 6 percent funds which the department proposes to incorporate in its administrative budget *is not needed for JTPA administration.* The department could eliminate the $629,000 in 6 percent funds and still have sufficient 5 percent funds to cover its administrative costs *and* fund $1.3 million in special projects.

Moreover, the department has not provided the Legislature with information justifying the more-than-100-percent increase in funding for special projects, or even describing how the money will be spent. Our review of special projects funded in the prior year and current year indicates that the discretionary funds have been shifted among projects, and in some cases the funds have not been spent for the purposes originally proposed. In addition, the department has not spent all of the funds available for special projects. This makes the proposal to increase the amount of funds available for such projects by establishing an ACP even more questionable.

Given the lack of justification for an ACP, we recommend that the Legislature adopt Budget Bill language in Item 5100-001-869 prohibiting EDD from using an ACP in 1986–87. If our recommendation is adopted, the $629,000 could be used to support incentive awards and technical assistance for local JTPA programs. We further recommend that the department provide the Legislature by October 1, 1986, (1) a description of how it proposes to use administrative (5 percent) funds in 1986–87, (2) a report on its allocation of discretionary money in 1986–87, and (3) a comparison of administrative expenditures for 1984–85, 1985–86, and 1986–87.

The following Budget Bill language is consistent with this recommendation:

"The Employment Development Department shall not use an Administrative Cost Pool in order to augment the administrative funds available to the department for the Job Training Partnership Act (JTPA).

"In addition, the department shall submit to the Legislature by October 1, 1986, (1) a description of how it proposes to use administrative (5 percent) funds in 1986–87, (2) a report on its proposed allocation of discretionary money for special projects, and (3) a comparison of administrative expenditures for 1984–85, 1985–86, and 1986–87."

Legislature Has Not Received Two Reports It Directed EDD to Prepare

At the time this analysis was prepared, the department had not submitted to the Legislature reports on the following issues that were required by the *Supplemental Report of the 1985 Budget Act:*

1. Fraud detection activities in the DI program—due December 1, 1985.
2. Job Training Coordinating Council budget procedures, expenditures in the older workers program, distribution of incentive awards, and state match for the federal Veterans program under JTPA—due October 1, 1985.

Without these reports, we cannot determine whether the department has carried out the Legislature's policies.

The Legislature has received the department's report on the impact of automation on the UI, DI, and Job Service Order Sharing and Tax programs. At the time this analysis was prepared, we were in the process of reviewing the report.

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY

Item 5100-301 from the Unemployment Administration Fund and the Employment Development Department Contingent Fund — Budget p. HW 138

Requested 1986–87	$434,000
Recommended approval	434,000

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes $434,000 for 10 minor capital outlay projects ($200,000 or less per project) for the Employment Development Department (EDD) in 1986–87. This amount includes:

(1) $240,000 from the Unemployment Administration Fund for remodeling restrooms in five offices for handicapped accessibility and

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constructing new public restrooms in two offices.

(2) $194,000 from the Employment Development Department Contingent Fund for remodeling the interior of three offices for an "open landscape" design, installing carpeting and purchasing movable acoustical partitions. ("Open landscape" refers to office designs where most employees work in a large common room, separated by movable partitions.)

We recommend approval of the EDD's minor capital outlay program, which is summarized in Table 1.

Table 1
Employment Development Department
1986–87 Capital Outlay Program
(dollars in thousands)

Restroom Remodeling	*Office*	*Budget Bill Amount*
1	Pasadena	$25
2	Visalia	13
3	Oroville	45
4	Stockton	6
5	Eureka	39
6 (new)	San Jose	58
7 (new)	Bakersfield	57
Open Landscaping		
1	Merced	50
2	Riverside	64
3	Bakersfield	70
Total		$427

EMPLOYMENT DEVELOPMENT DEPARTMENT—REAPPROPRIATION

Item 5100-490 from federal funds — Budget p. HW 125

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reappropriates local assistance funds for employment and training programs under the federal Job Training Partnership Act (JTPA). The item allows the Employment Development Department (EDD) to carry forward into 1986–87 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. The item also requires EDD to notify the Legislature by December 1, 1986, of the actual amount of JTPA local assistance funds carried over into 1986–87.

Our analysis indicates that establishing a reappropriation item for these federal funds is appropriate for two reasons. First, the funds come from the federal government; there are no state funds in this item that might be recaptured if not spent. Second, the state has no direct programmatic authority over these funds. The state's role is that of an intermediary—passing the JTPA funds from the federal government to the local program operators. Therefore, we recommend approval of this item.

Health and Welfare Agency
DEPARTMENT OF REHABILITATION

Item 5160 from the General Fund and Federal Trust Fund — Budget p. HW 138

Requested 1986–87	$85,397,000
Estimated 1985–86	81,765,000
Actual 1984–85	73,997,000
Requested increase $3,632,000 (+4.4 percent)	
Total recommended reduction	None
Recommendation pending	57,428,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5160-001-001—Support	General	$19,309,000
5160-001-890—Support	Federal Trust	(95,553,000)
5160-001-942—Support	Vending Stand Account	(1,285,000)
5160-101-001—Local assistance	General	61,554,000
Reimbursements	—	4,534,000
Total		$85,397,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS — *Analysis page*

1. Proposed Staff Reductions. Recommend that, prior to budget hearings, the department submit to the fiscal committees specified information regarding its proposed position reductions. 893
2. Additional Federal Funds. Recommend that, prior to budget hearings, the department advise the fiscal committees on (a) the amount of federal funds it will receive during 1985–86 and 1986–87 and (b) how it plans to use the additional funds. 895
3. Mental Health Initiative. Recommend adoption of Budget Bill language implementing the proposed Mental Health Initiative on a pilot basis. Further recommend that the Legislature (a) restore nine positions and $297,000 which the budget eliminates from the Vocational Rehabilitation (VR) program and (b) redirect back to the VR program 17 positions and $915,000. 896
4. Federal Reimbursements. Recommend that, prior to 898

DEPARTMENT OF REHABILITATION—Continued

budget hearings, the department provide the Legislature with a plan for increasing the amount of federal reimbursements received for serving Supplemental Security Income/State Supplementary Program (SSI/SSP) and Social Security Disability Insurance (SSDI) recipients.

5. Federal Reimbursements. Recommend adoption of supplemental report language directing the Departments of Rehabilitation (DOR) and Social Services to submit a joint report (a) identifying the potential costs and savings to the state of increasing the number of SSI/SSP and SSDI recipients served by DOR and (b) proposing an improved system for referring SSI/SSP recipients to DOR. 899
6. Work Activity Program Caseloads. Withhold recommendation on $57.4 million proposed for the Work Activity Program (WAP) until the department provides the Legislature with reliable estimates of WAP caseload and funding requirements for 1986–87. Further recommend adoption of Budget Bill language requiring the department to report twice yearly on WAP caseload projections. 901
7. Supported Employment Program. Recommend that, prior to budget hearings, the department report to the Legislature on its plans for implementing the Supported Employment program. 902

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) followup 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.

The Work Activity Program provides habilitation services 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 (1) to provide clients with work stability in sheltered employment, (2) to 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 1985 Budget Act authorized 1,707.9 positions for the department in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $80,863,000 from the General Fund for support of the Department of Rehabilitation in 1986–87. This is an increase of $3,632,000, or 4.7 percent, above estimated current-year General Fund expenditures.

Total program expenditures, including expenditures from federal funds, special funds, and reimbursements, are proposed at $182,235,000, an increase of $5.6 million, or 3.2 percent, above estimated current-year expenditures. Table 1 displays program expenditures and funding sources for the prior, current, and budget years. Table 2 shows the number of personnel-years for the department during the period 1984–85 through 1986–87.

Table 1
Department of Rehabilitation
Budget Summary
1984–85 through 1986–87
(dollars in thousands)

Program	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
Vocational Rehabilitation	$90,764	$102,058	$105,105	3.0%
Habilitation Services	49,254	54,539	58,175	6.7
Support of Community Facilities	7,069	8,044	7,563	−6.0
Administration	12,502	11,982	11,392	−4.9
Totals	$159,589	$176,623	$182,235	3.2%
Funding Source				
General Fund	*$70,104*	*$77,231*	*$80,863*	*4.7%*
Federal Trust Fund	*84,307*	*93,573*	*95,553*	*2.1*
Vending Stand Account	*1,285*	*1,285*	*1,285*	—
Reimbursements	*3,893*	*4,534*	*4,534*	—

Table 2
Department of Rehabilitation
Personnel-Years
1984–85 through 1986–87

				Change From 1985–86	
Program	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Amount*	*Percent*
Vocational Rehabilitation	1,447.4	1,385.2	1,327.8	−57.4	−4.1%
Habilitation Services	19.0	22.9	19.9	−3.0	−13.1
Support of Community Facilities	18.0	11.7	11.7	—	—
Administration	215.4	194.4	169.0	−25.4	−13.1
Totals	1,699.8	1,614.2	1,528.4	−85.8	−5.3%

General Fund Request. Table 3 identifies the significant changes in General Fund expenditures proposed for 1986–87.

The budget does not include funding for Merit Salary adjustments or inflation adjustments to Operating Expenses and Equipment. We estimate that the department will have to absorb approximately $2.7 million in such costs.

DEPARTMENT OF REHABILITATION—Continued

Table 3
Department of Rehabilitation
Proposed General Fund Budget Changes
1986–87
(dollars in thousands)

	Adjustments	*Totals*
1985–86 expenditures (revised)		$77,231
1. Cost adjustments		
a. Increase in existing personnel costs		
• Full-year cost of 1985–86 salary increase	$69	
• 1986–87 salary increase	587	
Subtotal	$656	
b. Collective bargaining costs	−5	
Total, Cost Adjustments		$651
2. Reductions in funding		
a. Limited-term Work Activity Program auditors	−157	
b. One-time funding for Partially Sighted Project—Northern California	−100	
c. Communication Devices Project—Ch 1214	−250	
Total, Reductions in Funding		−$507
3. Program Change Proposals		
a. Work Activity Program caseload adjustment	$3,488	
Total, Program Change Proposals		$3,488
1986–87 expenditures (proposed)		$80,863
Change from 1985–86:		
Amount		$3,632
Percent		4.7%

ANALYSIS AND RECOMMENDATIONS

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

- A reduction of 12 central office positions due to efficiencies. This reduction will free up $436,000 to be used for purchasing client services.
- A reduction of 7.5 field office clerical positions. This will free up $213,000 to be used for purchasing client services.

Counselor Positions Are Not Being Used to Provide Client Services

Vocational rehabilitation (VR) counselors perform client assessment, counseling, referral and purchase of services, and follow-up in an effort to place disabled individuals in suitable employment.

The 1985 Budget Bill, as introduced, proposed to eliminate 37 VR counselor positions. The Legislature restored these positions because it determined that reducing the number of counselors would adversely affect services to California's disabled population. The Governor chose not to veto funding for the 37 counselor positions in signing the 1985 Budget Act.

Despite the actions taken by the Legislature, the department has not filled 20 of the 37 positions with case-carrying staff. Instead, the department held these positions vacant until the middle of the current year, when it filled 15 of the positions with Program Supervisors whose positions were eliminated in the 1985 Budget Act. These 15 Program Supervisors originally were funded from an attrition blanket included in the 1985 Budget Act. The DOR removed them from the attrition blanket and placed them in the counselor positions in order to stretch the attrition blanket funds. The department has continued to hold vacant the remaining five counselor positions.

Thus, as a result of the department's actions, 20 counselor positions which the Legislature restored will not be providing direct rehabilitation services to clients.

Legislature Needs Additional Information on the Impact of Proposed Position Reductions

We recommend that, prior to budget hearings, the department submit to the Legislature specified information regarding its proposed position reductions.

The DOR proposes to eliminate 56.5 positions in 1986–87. The reductions would be made in the following three categories of staffing:

- Central Office—Administration. The budget proposes to reduce eight positions from the DOR central administrative staff. The department indicates that as a result of operating efficiencies, the remaining staff can absorb the work currently performed by these eight positions.
- Central Office—Program. The budget proposes to reduce six positions which currently support programs administered by DOR's central office staff. According to the department, the workload assigned to five of these positions can be absorbed by existing staff without having a noticeable impact on services. One position proposed for elimination from the Business Enterprise Program (BEP), however, will reduce the level of services to the blind.
- District Office—Program. The budget proposes to eliminate 42.5 positions that currently are supporting the operation of VR programs throughout the state. These reductions include: (1) 22.5 positions providing administrative support to VR counselors, (2) five vocational psychologists, (3) four medical consultants, and (4) 11 VR counselors.

The Legislature has not been provided with the information it needs to evaluate three aspects of the department's proposals.

No Plan for Reorganizing District Offices. The budget proposes to eliminate nine district office administrative staff positions by reducing from seven to six the number of district offices in Los Angeles. In addition, the department proposes to eliminate 7.5 clerical positions in various field offices. It indicates that this reorganization will bring the ratio of administrative staff to counselors in Los Angeles down to a level comparable with that in the rest of the state. Currently, each administrative staff position in Los Angeles supports 3.3 counselors. Following the proposed reduction, each administrative staff position would support 3.8 counselors. The department's proposal to eliminate 7.5 clerical positions would further reduce this ratio to one administrative position for every four counselors.

While the department says that it has been considering such a merger for several years, it has not provided us with a detailed reorganization plan showing:

DEPARTMENT OF REHABILITATION—Continued

- The impact of the new staff/counselor ratio on the delivery of services to clients in Los Angeles.
- How the boundaries of the remaining six districts will be shifted to compensate for the elimination of one administrative office in the Los Angeles region.
- Which district office will be eliminated.

Without such a plan, we are unable to evaluate the merits of this proposal.

Rationale for Contracting Out Medical Consultant and Psychologist Positions Not Documented. The department proposes to eliminate five vocational psychologist positions and four medical consultant positions. The vocational psychologists provide diagnostic and vocational testing services to VR clients as requested by the department's counselors. The department advises that elimination of the five positions will free up $168,493 which will be used by counselors to purchase diagnostic and vocational testing on a fee-for-service basis.

The medical consultants provide assistance to VR counselors in determining a client's medical eligibility for services and vocational limitations. The department states that elimination of the four positions will free up $207,360 which will be used by counselors to purchase these services on a fee-for-service basis.

The department believes that it is more efficient to use psychologists and medical consultants on a fee-for-service basis than to have full-time state staff performing these activities. The department, however, could not provide us with information documenting this assertion or showing that the proposal would result in savings.

Reduction in Services to the Blind. The budget proposes to reduce two positions and $76,000 from the BEP. This program provides training and employment for legally blind persons in the management of food service and vending facilities located in public and private buildings throughout the state.

One of the two positions proposed for elimination is an associate architect. This position produces architectural drawings which are used to establish new vending sites and to remodel existing sites. In addition, the associate architect advises persons who wish to open a vending facility about facility design, equipment specifications, and equipment costs. The department states that elimination of the associate architect position will reduce by one-half the number of schematic and working drawings it will be able to produce in a year. The department indicates, however, that this reduction will be *partially* offset by the increased productivity of the remaining architect which the purchase of a personal computer will make possible.

Even so, the number of architectural drawings produced annually by the department will go down by one-third—from 60 to 40 schematic drawings and from 25 to 18 sets of working drawings. The ability of the department to promote the BEP and assist in the development of new sites will also decline.

The department is unable to advise the Legislature what effect this reduction would have on employment opportunities for the blind.

Recommendation. In order to help the Legislature make a meaningful assessment of the proposed position reductions, we recommend that, prior to budget hearings, the department submit to the fiscal committees the following information:

1. A reorganization plan for the Los Angeles region which includes (a) a comparison of the present and proposed district boundaries, (b) the current and proposed caseload by district and number of VR counselors by district, and (c) the number of administrative positions in each district.
2. A comparison of the costs and benefits of contracting out for vocational psychologists and medical consultants.
3. An explanation of how eliminating an associate architect in the BEP and producing one-third fewer architectural drawings will affect the level of employment opportunities and services for the blind.

VOCATIONAL REHABILITATION SERVICES

The federal government provides financial support for the state's basic VR services and for VR services provided to eligible Supplemental Security Income/State Supplementary Program (SSI/SSP) 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. The federal government funds the full cost of services provided to SSI/SSP and SSDI recipients.

The budget proposes an expenditure of $116,160,000 from all funding sources for VR services and associated administration in 1986–87. This is an increase of $2,457,000, or 2.2 percent, above estimated current-year expenditures. Of the total, $18,011,000 is requested from the General Fund, $92,330,000 is from federal funds, and $5,819,000 is from fees and reimbursements.

The budget also proposes to spend an additional $2.7 million in federal VR funds for grants to community facilities.

Additional Federal Funds Not Budgeted

We recommend that, prior to budget hearings, the department advise the fiscal committees on (1) the level of federal funds that it will receive during 1985–86 and 1986–87 and (2) how it plans to use the additional funds.

The budget document estimates that federal funds to support the basic rehabilitation program will total $89,466,000 in the current year and $91,839,000 in the budget year. These amounts, however, do not reflect the effect of the appropriation bill signed by the President on December 12, 1985. This act increased funding for Vocational Rehabilitation (VR) programs by $90 million, from $1,100 million in federal fiscal year (FFY) 1985 to $1,190 million in FFY 1986. This would result in an additional $7 million in federal funds for California in the current year. If the Congress appropriates the same amount of funds for FFY 1987, an additional $7 million would be available in the budget year as well.

The 1986 Budget Bill proposes the expenditure of $2.4 million in extra federal funds for the VR program. This, however, leaves $4.6 million of the $7 million unallocated.

The VR program is subject to reduction as a result of the Gramm-Rudman Deficit Reduction amendment. Therefore, the Legislature will not be able to determine until February or March the amount of additional federal funds, if any, which California can expect in 1985–86 and 1986–87.

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 advise the Legislature how much federal money will be available for 1985–86 and

DEPARTMENT OF REHABILITATION—Continued

1986–87, and how the department intends to use any additional, unbudgeted funds.

Mental Health Initiative Needs Pilot Testing

We recommend that the Legislature adopt Budget Bill language implementing the proposed Mental Health Initiative on a pilot basis. We further recommend that the Legislature (1) restore nine positions and $297,000 that would be cut from the VR program and (2) redirect back to the VR program 17 positions and $915,274.

The budget proposes $2,514,000 for a "Mental Health Initiative" to enhance VR services to the mentally ill. These funds will be made available by:

1. Reducing 17 VR positions (11 counselors and 6 administrative staff). This reduction will free up $561,000 which will be used to purchase prevocational services for mentally ill clients.
2. Redirecting 34 positions (21 counselors and 13 administrative staff) and $1,953,609 from the basic VR program in order to provide VR services to the mentally ill.

The initiative represents a cooperative effort on the part of the department and the Department of Mental Health. It is intended to provide both prevocational and vocational services to mentally ill individuals. According to the department, prevocational services include instruction in grooming, dressing, appropriate employment attire, interviewing techniques, and job behavior. The department maintains that such services are necessary in order to assist the seriously mentally ill to succeed in the local job market.

The department believes that its proposal is consistent with the Legislature's intent in enacting Ch 1286/85 (AB 2541)—to establish community vocational treatment programs for the mentally ill.

Will Additional Costs Result in a Proportional Increase in Benefits? The department indicates that its Mental Health Initiative will supplement the VR services it now provides to mentally disabled individuals. According to the department, almost 50 percent of its regular VR clients have some sort of mental impairment such as alcoholism, drug addiction, character and personality disorders, mental retardation, and psychoses or neuroses. In addition to serving mentally disabled individuals in its regular caseload, the department operates a Mental Health Co-Operative Program. Under this program, the DOR works directly with Mental Health professionals at 15 sites throughout the state providing VR services to mentally ill persons.

Table 4

Comparison of Proposed Rehabilitation Costs and Success Rates for the Mentally Ill

1986–87

Program	*Total Cost* [a]	*Number of Rehabilitations*	*Successful Rehabilitation Rate*	*Average Cost Per Rehabilitation*	*Average Purchased Client Services Per Rehabilitation*
Mental Health Initiative	$3,170,945	504 [b]	63% [b]	$6,291	$2,570
Mental Health Co-Operative	2,507,385	565	63	4,437	1,397
All clients	108,089,000	17,606	64	6,139	2,214

[a] Includes vocational rehabilitation position costs, purchased services, and indirect costs.
[b] Based on estimate for second year of program.

Table 4 compares the number of rehabilitations, the success rate, and cost per rehabilitation for both the existing Mental Health Co-Operative Program and the Mental Health Initiative. It also compares these two programs to the department's basic VR program.

As the table shows, it will cost 30 percent more to rehabilitate a mentally ill person under the Mental Health Initiative than it would cost to do so under the Mental Health Co-Operative Program. The department plans to spend $2,570 to purchase services (primarily prevocational) for Mental Health Initiative clients. In contrast, it will spend $1,397 to purchase services for Mental Health Co-Operative clients. The department, however, does not expect the extra costs to produce higher success rates, as measured by the percentage of persons deemed to have been successfully rehabilitated. (The 63 percent success rate anticipated for the Mental Health Initiative, is the department's "best guess"; it does not have any experience on which to base an estimate.)

The department attributes the higher costs to the fact that the Mental Health Initiative will serve individuals who are more severely mentally disabled. These clients will require extensive prevocational services and training to prepare them for employment. We are not able to confirm the department's contention that the higher costs of the initiative will yield greater benefits than the regular VR program or the Mental Health Co-Operative Program.

Programmatic Uncertainties. We have identified a number of other unknowns regarding the implementation of the department's proposal. They are as follows:

- ***The department could not advise us how it will allocate the $561,000 for client services.*** In its proposal, the department indicates that it will spend a total of $561,000 on (1) special prevocational services, (2) computer hardware and software, and (3) job development and placement services. In addition, the department states that it will fund the development of nontraditional innovative service delivery models. The department, however, has not provided further details as to how these funds will be allocated among these items.
- ***The department could not tell us how clients will enter this program.*** The department indicates that some of the individuals who will be served by the Mental Health Initiative currently are receiving services under the VR program. The department, however, could not tell us how many of the current VR clients will be diverted to the Mental Health Initiative and how many will be new referrals from community mental health programs.

Department Should Pilot Test Mental Health Initiative. The department proposes to fund up to 21 sites by redirecting 34 VR positions to the initiative and by eliminating 17 VR positions. It does not request additional funds for the initiative. Given the uncertainties identified above, we believe the department should test the Mental Health Initiative on a limited scale in order to confirm that (1) this program will effectively serve the severely mentally disabled and (2) the benefits from the pro-

DEPARTMENT OF REHABILITATION—Continued

gram justify the higher costs. In addition, a pilot test would give the department an opportunity to determine which local models are most effective before expanding the scope of the program.

Accordingly, we recommend that the Legislature adopt Budget Bill language under Item 5160-001-890 implementing the Mental Health Initiative at 10 sites on a pilot basis. This would require 17 positions and $1,302,000 in client services funding—approximately half of what the department proposed. Consistent with this recommendation, we recommend that the Legislature (1) restore to the VR program nine positions and $297,000 which the budget proposes for elimination and (2) redirect back to the VR program 17 positions and $915,274 in federal and state funds which the budget earmarks for the Mental Health Initiative. These funds would be used by DOR to provide services to disabled individuals.

The following Budget Bill language is consistent with this recommendation:

> "The DOR shall spend no more than $1.3 million in federal vocational rehabilitation funds for program services to mentally disabled clients under the Mental Health Initiative."

The Department Is Not Maximizing Federal Reimbursements

We recommend that, prior to budget hearings, the DOR present the Legislature with a plan for increasing the amount of federal reimbursements received for serving SSI/SSP and SSDI recipients. The department should include in this plan the action it proposes to take in order to improve its ability to identify and track SSI/SSP and SSDI clients for the purpose of obtaining reimbursement.

The federal Social Security Administration (SSA) reimburses the state for the *full cost* of providing VR services to a recipient of SSI/SSP or SSDI who remains employed for nine months following rehabilitation. This reimbursement is in *addition* to the federal funds the department receives to provide rehabilitation services to these individuals. The reimbursements can be used to (1) partially offset the General Fund's share of costs attributable to the VR program or (2) augment services to VR clients.

In order to obtain federal reimbursement, the DOR must provide documentation to the federal government that (1) an individual is an SSI/SSP or SSDI recipient, (2) the individual has engaged in substantial gainful activity (SGA) for nine months (that is, he or she has earned $600 per month if blind or $300 per month if otherwise disabled), (3) VR services contributed to the individual's employment, and (4) the costs incurred for rehabilitation were reasonable and necessary. The DOR has one position which is responsible for identifying SSI/SSP and SSDI clients, certifying their length of employment, submitting claims for reimbursement, and appealing claims which are denied by SSA.

The DOR Does Not Require its Counselors to Identify and Track SSI/SSP and SSDI Clients Who Are Successfully Rehabilitated. Instead, the department identifies potentially reimbursable cases by matching a list of its clients with a list from the SSA of SSI/SSP and SSDI cases in the state. Then, a list of DOR clients who have been identified as SSI/SSP or SSDI cases is submitted to the Employment Development Department (EDD). The EDD matches these individuals against its records of wages paid by employers in order to determine which ones have been employed for nine months.

The department indicates that one-half of the cases on the last list it submitted to the EDD did not show up on EDD's records as having earned income. The department advises that there are several reasons for this. A positive match may not be obtained because of errors in the social security number. In other cases, individuals' earnings do not show up because they are working for nonprofit organizations, are homemakers, or are self-employed. In addition, the department believes that some SSI/SSP and SSDI recipients stop working or reduce their hours below SGA in order to maintain their social security benefits.

The DOR does not pursue cases which fail to show a match with EDD's wage records. As a result, the department is unable to tell us how many of these cases would qualify the state for reimbursement. Some of these individuals, however, represent success stories for which the state should be reimbursed.

We believe the department might be able to double the amount of reimbursements it receives from the federal government if it could track and submit reimbursement claims for at least one-half of those cases that do not yield a positive match with EDD's records. To date, this reimbursement amounts to $3,410 per SSDI case and $3,522 per SSI/SSP case. This could generate up to an additional $3.5 million in federal reimbursements.

With this in mind, we recommend that, prior to budget hearings, the department present the Legislature with a plan for increasing the amount of federal reimbursements it receives for serving SSI/SSP and SSDI clients. The department should include in this plan a description of the actions that can be taken to improve its ability to identify and track SSI/SSP and SSDI clients.

Department Should Improve Coordination to Maximize Federal Reimbursements

We recommend that the Legislature adopt supplemental report language directing the Departments of Rehabilitation and Social Services to submit a joint report, by October 1, 1986, that (1) identifies the potential costs and savings to the state of increasing the number of SSI/SSP and SSDI recipients that the DOR serves and (2) proposes an improved system for referring SSI/SSP and SSDI recipients to DOR, including referral criteria.

As we indicated above, the federal SSA reimburses the state for the cost of providing VR services to a recipient of SSI/SSP or SSDI who remains employed for nine months following rehabilitation. The Department of Social Services (DSS) determines whether or not individuals are eligible for SSI/SSP, based on a review of their medical condition, and refers some clients to DOR in the course of this review. Currently, several agencies, including the DSS, refer SSI/SSP and SSDI recipients to DOR for rehabilitation services.

The DSS refers a relatively small number of SSI/SSP and SSDI recipients to DOR. The departments cite two reasons for this. First, the federal government has changed the way it reimburses the state for the costs of providing VR services to these individuals. Instead of providing a block grant to the state to cover these costs, the federal government now provides reimbursement on a case-by-case basis. Second, DOR maintains that it is difficult to serve SSI/SSP and SSDI clients. According to the department, this is because these clients (1) do not want to perform SGA on a continuing basis because they do not want to lose their SSI/SSP grant by going to work and (2) have little work experience, and are therefore difficult to place in jobs.

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We have reviewed the current referral system and have found it to have the following deficiencies:

- The criteria that DSS uses to determine which clients should be referred to DOR are too broad, and do not target those recipients who have the best chance of successful rehabilitation.
- The DSS and DOR were unable to provide us with consistent figures on the number of SSI/SSP and SSDI clients who are referred to DOR.

Our analysis indicates that if DOR successfully served more SSI/SSP and SSDI clients, the state could realize substantial savings. These savings would result from (1) the fact that the grants for SSI/SSP recipients would be decreased or terminated as a result of successful rehabilitation and (2) DOR would claim additional federal reimbursement for serving these clients. These reimbursements could be used to offset the General Fund portion of the VR program or to augment services to VR clients.

There are good reasons for believing that a number of SSI/SSP and SSDI recipients could benefit from VR services and would be willing to receive such services. First, the federal government has extended to January 1987, the duration of a pilot work incentive project which encourages SSI/SSP and SSDI recipients to work. Second, DSS is starting to review the eligibility for aid of currently disabled SSI/SSP and SSDI recipients, giving it an opportunity to refer to DOR recipients who have been receiving SSI/SSP and SSDI benefits for some time.

With this in mind, we recommend that the Legislature adopt supplemental report language directing the Departments of Rehabilitation (DOR) and Social Services (DSS) to submit a joint report, by October 1, 1986, that (1) identifies the potential costs and savings to the state of increasing the number of Supplemental Security Income/State Supplementary Program (SSI/SSP) and Social Security Disability Insurance (SSDI) recipients that DSS refers to DOR and (2) proposes an improved system for referring SSI/SSP and SSDI recipients to DOR, including a specific referral criteria which identifies those recipients who have the best chance of a successful rehabilitation.

The following supplemental report language is consistent with this recommendation:

"The Departments of Rehabilitation (DOR) and Social Services (DSS) shall submit a joint report by October 1, 1986, that (1) identifies the potential costs and savings to the state of increasing the number of Supplemental Security Income/State Supplementary Program (SSI/SSP) and Social Security Disability Insurance (SSDI) recipients that DSS refers to DOR and (2) proposes an improved system for referring SSI/SSP and SSDI recipients to DOR, including a specific referral criteria which identifies those recipients who have the best chance of a successful rehabilitation."

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.

Basis for Budget-Year Estimate is Unclear

We withhold recommendation on $57,428,000 in General Fund support requested for the WAP until the department provides the Legislature with reliable estimates of the funding needed to support the estimated WAP caseload in 1986–87. 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 $57,428,000 in General Fund support for the WAP in 1986–87. Of this amount, $56,271,000 is proposed for local assistance grants to work activity centers and $1,157,000 is for state administration of the program. This represents an increase of $3.4 million, or 6.2 percent, above the current-year level. The increase results from a projected caseload increase of 914 clients above the level *budgeted* for the current year.

Current-Year Caseload Estimates. The 1985 Budget Act assumed that there would be an average of 13,698 clients in WAP during 1985–86. Actual caseload data through November 1985 indicate that the WAP is serving an average of 175 fewer clients each month than anticipated by the act. If this trend continues throughout the balance of 1985–86, the WAP will not need approximately $600,000 appropriated by the 1985 Budget Act.

The department acknowledges that actual monthly WAP caseloads to date have been lower than what the 1985 Budget Act assumed. The DOR, however, does not believe that these statistics necessarily mean that there will be savings in the current year.

No Basis For 1986–87 Estimates. The Legislature has repeatedly expressed concern regarding the accuracy of the department's WAP caseload estimates. Because of this concern, the Legislature added language to the 1985 Budget Act which requires the DOR to (1) report twice annually—November 1 and May 1—on current-year and budget-year caseload estimates and (2) incorporate into its caseload estimates, the potential number of clients moving into the WAP from regional centers, special education programs, and state hospitals.

The November 1, 1985, report, which the Legislature did not receive until January 15, 1986, contains no meaningful information regarding changes in the WAP caseload that the department anticipates in the budget year. The department indicates that it projected the 1986–87 caseload simply by extending current-year caseload growth into the budget year. Specifically, the department expects the current-year caseload to exceed the actual caseload in 1984–85 by 914 clients. On this basis, it projects that the budget-year caseload will be 914 clients higher than the level currently estimated for the current year.

We have two problems with the DOR's estimate of the 1986–87 WAP caseload.

1. It is not clear that the department took into account (a) the movement of individuals from state hospitals to work activity sites and (b) referrals from special education classes to work activity program in developing its caseload estimates for 1986–87. While the department claims that it did, nothing has been provided to document this assertion.

2. As far as we can determine, the DOR has not incorporated into its budget estimates for 1986–87, the potential rate and caseload effects of Ch 1219/85 (AB 1667). This measure authorized the department to fund new work activity programs under the Habilitation Services Program. It also appropriated $600,000 from the General Fund to increase the rate paid to new work activity programs. While the department acknowledges that

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this measure may increase the number of WAP clients and the rates paid for these clients, its budget proposal does not make any allowances for these increases.

For these reasons, we cannot recommend approval of the amount proposed for the WAP in 1986–87. Therefore, we withhold recommendation on $57.4 million in General Fund support budgeted for the program, pending receipt of a report documenting the basis for the department's 1986–87 caseload and cost estimates.

We recommend that the Legislature adopt Budget Bill language requiring DOR to (1) report twice each year on current-year WAP caseload changes and (2) advise the Legislature how these changes are likely to affect budget-year caseload estimates. The Legislature included this language in the 1985 Budget Act. The language, however, has been dropped from the 1986 Budget Bill. The language is as follows:

> "The Department of Rehabilitation shall submit to the Legislature on November 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.
>
> "4. The impact of Chapter 1219, Statutes of 1985, on the caseloads and costs of the Work Activity Program."

Legislature Needs More Information on Supported Employment

We recommend that, prior to budget hearings, the department report to the Legislature on its plans for implementing the Supported Employment Program.

The federal government has awarded the DOR a five-year grant totaling $2,359,000 to implement a Supported Employment Initiative in California. According to the department, supported employment provides a variety of services which enable severely disabled individuals to work with nondisabled individuals in private industry, at pay commensurate with productivity. The department believes supported employment has the potential to change the entire state system which serves disabled adults.

The Department of Finance has authorized the DOR to spend $217,000 of its federal grant in the current year for start-up costs, training, and publicity. The budget proposes to spend $472,000 in 1986–87. Of this amount, the department plans to use:

- $192,000 to support training for project staff, state agency personnel, and service providers.
- $48,000 to fund a media campaign.
- $200,000 to award start-up and development grants to 10 Supported Work Projects (SWPs).

Supported employment has the potential to improve services and perhaps even reduce costs. At this point, however, the Legislature is not able to assess whether the Supported Employment Program is on the right track because the department's proposal does not provide enough information on:

- The impact that supported employment will have on the caseload and funding requirements of the current habilitation program.
- The potential savings of the proposal.
- The department's plan to evaluate the program.
- The department's plan to redirect VR counselors to supported employment.

Supported Employment Could Increase Habilitation Program Costs. The department plans to award $20,000 to 10 local SWPs in 1986–87. By 1991, the department estimates that more than 50 SWPs will be established throughout the state. Under provisions of the federal grant, the funds can be used *only* for start-up, training, and development costs. The department estimates that the SWPs will fully expend their start-up grants within approximately three months. It is not clear where the money needed to continue the SWPs will come from. If the SWPs seek funding under Ch 1219/85, the Legislature probably will be expected to increase funding for the habilitation program, which is supported by the General Fund. Furthermore, the department intends to use approximately one-half of the $600,000 appropriated by Chapter 1219 to fund supported employment projects which would be in addition to those established with the federal grant money.

The Legislature needs to know what these additional demands will be in order to do its fiscal planning.

No Information on Potential Savings. The department indicates that supported employment may be more expensive initially than other habilitation services because of the intensive supportive services needed to assist an individual working in the private sector. The department expects, however, that early intensive services will increase an individual's chances for unsubsidized employment, relative to a WAP participant, and thus will save money in the long run.

While such savings may occur, the department has provided no information on the cost per participant in supported employment and the potential costs and savings to the habilitation program.

Plans for State Evaluation Unclear. The federal government plans to evaluate the program in those states which have received a supported employment grant. The department indicates that it *may* evaluate the performance of the programs in California, although it has not made a final decision to do so. Consequently, at this point there are no firm plans for a state evaluation of the program.

VR Counselors Will Be Redirected. The department proposes to redirect VR counselors to supported employment programs during the current year. It has not, however, provided any information regarding the number of counselors it plans to redirect or the impact that this redirection will have on the existing VR program.

Given these uncertainties, we recommend that, prior to budget hearings, the department advise the Legislature:

1. How the DOR plans to meet the ongoing funding needs of SWPs.
2. The projected impact of supported employment on the habilitation caseload and funding requirements, taking into account referrals from the Department of Developmental Services and special education programs.
3. The estimated cost per participant in the Supported Employment

DEPARTMENT OF REHABILITATION—Continued

Program and the potential savings to the WAP from the program.

4. The effect that redirection of VR counselors to supported employment will have on services to VR clients.

Independent Living Services Expansion

The *Supplemental Report of the 1985 Budget Act* required the DOR to submit a report to the Legislature by December 1, 1985, on the need for independent living services and the department's plan to deliver these services on a statewide basis. At the time this analysis was prepared the Legislature had not received the report.

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. The budget proposes total expenditures by the department of $8.8 billion in 1986–87. This is an increase of $424 million, or 5.0 percent, above estimated current-year expenditures. Table 1 identifies 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
1984–85 through 1986–87
(dollars in thousands)

Program	Actual 1984–85	Est. 1985–86	Prop. 1986–87	Change From 1985–86 Amount	Change From 1985–86 Percent
Departmental support	$185,509	$226,346	$214,133	−$12,213	−5.4%
AFDC [a]	3,443,171	3,913,851	3,920,229	6,378	0.2
SSI/SSP [b]	2,387,751	2,667,261	2,921,522	254,261	9.5
Special Adult programs	1,732	1,897	2,093	196	10.3
Refugee programs	52,783	55,989	57,857	1,868	3.3
County Welfare Department Administration [a]	657,409	685,783	714,059	28,276	4.1
Social Services programs [a]	712,961	829,494	974,312	144,818	17.5
Community Care Licensing	9,873	11,198	11,198	—	—
Totals	$7,451,189	$8,391,819	$8,815,403	$423,584	5.0%
Funding Sources					
General Fund	*$3,259,400*	*$3,771,497*	*$4,030,854*	*$259,357*	*6.9%*
Federal funds [b]	*3,809,509*	*4,190,155*	*4,333,382*	*143,227*	*3.4*
Interstate Collection Incentive Fund	*633*	—	—	—	—
County funds	*374,064*	*419,422*	*438,576*	*19,154*	*4.6*
Reimbursements	*8,358*	*9,306*	*10,251*	*945*	*10.1*
State Children's Trust Fund	*−1,107*	*914*	*2,340*	*1,426*	*156.0*
Special Deposit Fund	*332*	*525*	—	*−525*	*−100.0*

[a] Includes county funds.
[b] Includes SSI federal funds.

Table 2 shows the *General Fund* expenditures for cash grant and social services programs administered by DSS. The budget requests a total of $4 billion from the General Fund for these programs in 1986–87. This is an increase of $259 million, or 6.9 percent, above estimated current-year expenditures.

DEPARTMENT OF SOCIAL SERVICES SUMMARY—Continued

Table 2
Department of Social Services
General Fund Expenditures
1984–85 through 1986–87
(dollars in thousands)

Program	Actual 1984–85	Est. 1985–86	Prop.[a] 1986–87	Change From 1985–86 Amount	Change From 1985–86 Percent
Departmental Support	$53,798	$64,266	$67,967	$3,701	5.8%
AFDC	1,591,829	1,828,902	1,833,927	5,025	0.3
SSI/SSP	1,248,571	1,410,536	1,591,370	180,834	12.8
Special Adult programs	1,657	1,822	2,018	196	10.8
County Welfare Department Administration	122,627	129,181	133,848	4,667	3.6
Social Services programs	233,833	328,448	393,382	64,934	19.8
Community Care Licensing	7,085	8,342	8,342	—	—
Totals	$3,259,400	$3,771,497	$4,030,854	$259,357	6.9%

[a] Includes proposed cost-of-living adjustments.

OVERVIEW OF ANALYST'S RECOMMENDATIONS

We are recommending a net reduction of $11,233,000 from the amount proposed for expenditure from all funds. This amount consists of $7,427,000 from the General Fund and $3,806,000 in federal funds. In addition, we are withholding recommendation on $170,622,000 in proposed expenditures, pending receipt of additional information. Our recommendations are summarized in Table 3.

Table 3
Department of Social Services
Summary of Legislative Analyst's Recommendations
(dollars in thousands)

Program	Recommended Fiscal Changes: General Fund	Recommended Fiscal Changes: Federal Funds	Recommended Fiscal Changes: All Funds	Recommendations Pending (All Funds)
Departmental support	—	—	—	$3,661
AFDC	–$3,367	–$3,806	–$7,173	34,200
SSI/SSP	—	—	—	—
Special Adults	—	—	—	—
Refugees	—	—	—	—
County Administration	—	—	—	2,244
Social Services	–4,060	—	—	119,319
Community Care Licensing	—	—	—	11,198
Cost-of-living adjustments	—	—	—	—
Totals	–$7,427	–$3,806	–$11,233	$170,622

Department of Social Services
DEPARTMENTAL SUPPORT

Item 5180 from the General Fund and Federal Trust Fund — Budget p. HW 148

Requested 1986–87	$75,822,000
Estimated 1985–86	71,885,000
Actual 1984–85	62,156,000
Requested increase $3,937,000 (+5.5 percent)	
Total recommended reduction	None
Recommendation pending	2,529,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-001-001—Department of Social Services Support	General	$67,804,000
5180-001-890—Department of Social Services Support	Federal	(138,146,000)
Reimbursements	—	8,018,000
Total		$75,822,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Statewide Automated Welfare System (SAWS). Withhold recommendation on $2,265,000 ($1,133,000 from the General Fund, $943,000 in federal funds, and $189,000 in reimbursements) proposed for development and implementation of the SAWS project, pending receipt of the annual SAWS Progress Report. 911
2. Community Care Licensing Workload Standard. Withhold recommendation on $1,396,000 requested from the General Fund for increased licensing activities, pending receipt of a revised workload standard. 911

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers income maintenance, food stamps, and social services programs. It 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 3,368.1 positions to administer these programs in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $75,822,000 from the General Fund and reimbursements for support of the department in 1986–87. This is an increase of $3,937,000, or 5.5 percent, above estimated current-year expenditures.

The budget proposes expenditures from all funds, including reimburse-

DEPARTMENTAL SUPPORT—Continued

ments, of $214,133,000. This is $12,213,000, or 5.4 percent, below estimated current-year expenditures.

The budget does not include additional funding for Merit Salary Adjustments or inflation adjustments to Operating Expenses and Equipment. We estimate that the department will have to absorb approximately $4,811,000 in such costs. 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
Budget Summary
1984–85 through 1986–87
(dollars in thousands)

Program	Actual 1984–85	Est. 1985–86	Prop. 1986–87	Change From 1985–86 Amount	Percent
AFDC-FG&U	$16,631	$19,618	$15,921	−$3,697	−18.8%
AFDC-FC	4,534	5,010	5,486	476	9.5
Child Support	6,639	7,104	8,474	1,370	19.3
SSI/SSP	886	1,002	1,048	46	4.6
Special Adult programs	248	290	303	13	4.5
Food Stamps	17,062	18,116	15,935	−2,181	−12.0
Refugee programs					
Cash Assistance	1,930	2,197	2,456	259	11.8
Social Services	1,439	1,293	1,211	−82	−6.3
Targeted Assistance	1,137	1,058	1,255	197	18.6
Child Welfare Services	2,262	2,529	2,615	86	3.4
County Services Block Grant	1,343	1,415	1,492	77	5.4
IHSS	2,185	2,706	2,635	−71	−2.6
Employment programs					
WIN	13,610	24,248	954	−23,294	−96.1
GAIN	—	1,500	1,939	439	29.3
Adoptions	6,346	6,662	7,179	517	7.8
Child Abuse Prevention	1,419	1,961	2,258	297	15.1
Community Care Licensing	20,939	27,401	28,081	680	2.5
Disability Evaluation	80,485	96,476	108,983	12,507	13.0
Administration	6,414	5,760	5,908	148	2.6
Totals	$185,509	$226,346	$214,133	−$12,213	−5.4%
Funding Sources					
General Fund	*$53,798*	*$64,266*	*$67,967*	*$3,701*	*5.8%*
Federal funds	*123,084*	*153,934*	*138,146*	*−15,788*	*−10.3*
Reimbursements	*8,358*	*7,619*	*8,018*	*399*	*5.2*
Special Deposit Fund	*332*	*525*	—	*−525*	*−100.0*
State Children's Trust Fund	*(63)*	*2*	*2*	—	—

Proposed General Fund Changes

Table 2 shows the changes in the department's General Fund support expenditures that are proposed for 1986–87. Several of the individual changes are discussed later in this analysis.

Table 2
Department of Social Services
Departmental Support
Proposed General Fund Changes
1986–87
(dollars in thousands)

1985–86 expenditures (revised)		$64,266
Proposed Changes		
A. Workload adjustments		
1. Expiration of limited-term positions	−$772	
2. Reduction in SCO audit workload	−122	
3. One-time court case costs	−475	
4. One-time attorney fees	−432	
5. One-time implementation costs Community Care Licensing Management Information system	−153	
6. Extension of office automation to district offices	316	
7. Other	−8	
B. Cost adjustments		−1,646
1. Salary and benefits	1,982	
2. Retirement	334	
3. OASDI	127	
4. Staff reclassification	228	
5. Disaster relief	175	
6. Other	4	
C. Program adjustments		2,850
1. Transfer of Work Incentive Program from support to local assistance	−2,337	
2. Implementation of GAIN (Ch 1025/85)	220	
3. Enhancement and maintenance of Statewide Automated Welfare Systems	1,133	
4. Implementation of new Child Support outreach requirements	188	
5. Lower salary savings requirement	254	
6. Reduction in audits backlog and contract with SCO	164	
7. Increased legal support for Community Care Licensing	1,405	
8. Implementation of Elder Abuse Prevention Pilot Projects	24	
9. Extension of limited-term positions in Foster Care Rate Bureau	150	
10. Extension of Child Abuse Primary Prevention Program	393	
11. Increased Community Care Licensing activities	734	
12. Community Care Licensing Management Information System Conversion	169	2,497
1986–87 expenditures (proposed)		$67,967
Changes from 1985–86		
Amount		$3,701
Percent		5.7%

Proposed Position Changes

The budget requests authorization for 3,754.5 positions to staff the department in 1986–87. This is a net increase of 386.4 positions, or 11.5 percent, over the staffing level that would otherwise be authorized in the budget for 1986–87. The net increase reflects a proposed increase of 452.9 positions and a proposed reduction of 66.5 positions. The single largest increase—320.9 positions—reflects the administration's proposal to expand the Disability Evaluation Division (DED) so that it can process the additional workload resulting from the resumption of continuing disability reviews (CDRs). Most of the decrease—32.5 positions—reflects the proposal to reduce the department's salary savings level by abolishing various

DEPARTMENTAL SUPPORT—Continued

positions throughout the department. Table 3 displays the position changes proposed for 1986–87.

Table 3
Department of Social Services
Departmental Support
Proposed Position Changes
1986–87

Program	*Existing Positions*	*Reductions*	*Additions*	*Total Proposed Positions*	*Net Changes Positions*	*Net Changes Percent*
AFDC-FG/U	260.6	−5.6	9.2	264.2	3.6	1.4%
Employment programs	15.5	—	35.0	50.5	35.0	225.8
GAIN	—	—	(35.0)	(35.0)	35.0	100.0
WIN-Demo	(15.5)	—	—	(15.5)	—	—
AFDC-FC	115.4	−23.2	12.9	105.1	−10.3	−8.9
AFDC-Child Support Enforcement	75.2	—	—	75.2	—	—
SSI/SSP	26.2	−0.2	—	26.0	−0.2	−0.8
Special Adult programs	2.0	−0.1	—	1.9	−0.1	−5.0
Food Stamps	285.7	−2.4	7.0	290.3	4.6	1.6
Refugee programs	87.8	−9.2	0.7	79.3	−8.5	−9.7
Cash Assistance	(43.3)	(−0.7)	—	(42.6)	−0.7	−1.6
Social Services	(24.5)	(−8.5)	(0.7)	(16.7)	−7.8	−31.8
Targeted Assistance	(20.0)	—	—	(20.0)	—	—
Disability Evaluation	1,601.9	−16.1	320.9	1,906.7	304.8	19.0
In-Home Supportive Services	50.0	−2.2	0.2	48.0	−2.0	−4.2
Child Welfare Services	57.1	−0.4	—	56.7	−0.4	−0.7
County Services Block Grant	32.1	−0.1	1.0	33.0	0.9	2.8
Adoptions	142.1	−1.2	—	140.9	−1.2	−0.8
Maternity Care	3.7	—	—	3.7	—	—
Deaf Access	5.2	—	—	5.2	—	—
Child Abuse Prevention	23.0	−0.2	9.0	31.8	8.8	38.3
Community Care Licensing	499.2	−5.2	50.0	544.0	44.8	9.0
Services to other agencies	85.4	−0.4	7.0	92.0	6.6	7.7
Totals	3,368.1	−66.5	452.9	3,754.5	386.4	11.5%

ANALYSIS AND RECOMMENDATIONS

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

- The transfer of $29,782,000 ($2,337,000 General Fund) from the department's support budget to the counties (Item 5180-151-001) for various employment programs. The counties would provide services through these programs either directly or through a contract with the Employment Development Department (EDD) or another contractor. Currently, the DSS uses these funds to reimburse the EDD for the cost of various employment services it provides to county welfare department clients.
- An increase of $19,788,000 in federal funds to provide for increased workload in the DED due to the federally mandated resumption (PL 98-460) of CDRs.
- A net increase of $466,000 ($164,000 General Fund) to: (1) reduce the current audit backlog, (2) implement a contract with the State Controller's office to perform specified audits, and (3) staff the audit resolution and application processes.

- A net increase of $639,000 ($254,000 General Fund) to reduce the department's salary savings requirement by $1,284,000.
- An increase of $1,523,000 ($1,405,000 General Fund) for increased legal support of the Community Care Licensing program.
- An increase of $2,380,000 ($1,411,000 General Fund) to implement various legislative measures, including GAIN (Ch 1025/85), Adult Protective Services projects (Ch 1127/85), and the Child Abuse Primary Prevention program (Ch 1638/84).
- An increase of $1,128,000 ($188,000 General Fund) for increased workload in the Child Support Enforcement program.
- An increase of $182,000 ($169,000 General Fund) to pay for staff overtime associated with the conversion of the Community Care Licensing Division's Management Information System from a manual operation to an automated system.
- An increase of $273,000 ($150,000 General Fund) for continuation of six limited-term positions in the Foster Care Rate-Setting Bureau.

Statewide Automated Welfare System (SAWS)

We withhold recommendation on $2,265,000 ($1,133,000 from the General Fund, $943,000 in federal funds, and $189,000 in reimbursements) requested for the SAWS project, pending receipt of the department's annual report on the project.

The budget proposes $2,265,000 ($1,133,000 General Fund, $943,000 federal funds, and $189,000 in reimbursements) to support the department's costs of developing and implementing the Statewide Automated Welfare System (SAWS) project in 1986–87. Chapter 268, Statutes of 1984, requires DSS to report to the Legislature on its progress in achieving the goals established in the SAWS project. The report is due annually in March.

We withhold recommendation on the funds proposed for SAWS, pending review of the annual progress report on the SAWS project. Any decision concerning continued funding for this project should be made in light of its progress in meeting its stated objectives.

Community Care Licensing Activities

We withhold recommendation on $1,396,000 requested from the General Fund for support of increased activities of the Community Care Licensing Division, pending receipt of a revised workload standard.

The budget proposes $1,396,000 from the General Fund in order to implement various community care licensing requirements. These proposals involve adding staff to perform activities such as assessing penalties on specified facilities, collecting fines, conducting post-licensing visits, and checking criminal records. Currently, the department is in the process of revising its workload standard for community care licensing staff.

Because the budget proposals were not based on an updated workload standard, we withhold recommendation on these proposals, pending receipt of a revised workload standard.

Legislatively Required Reports

Adoptions Performance Report. The *Supplemental Report of the 1985 Budget Act* required the DSS to submit a report to the Legislature, by December 1, 1985, that established specified goals for adoption agency performance during 1985–86. The report also is supposed to provide recommendations regarding how the Relinquishment program's performance could be improved. At the time this analysis was prepared the report had not been submitted.

DEPARTMENTAL SUPPORT—Continued

IHSS Assessments and Service Awards. The *Supplemental Report of the 1985 Budget Act* required the DSS to submit a report to the Legislature by March 1, 1986, that provides an evaluation of its efforts to (1) increase statewide uniformity in the IHSS assessment process and (2) standardize the award of service hours. The report specified that the evaluation include (1) measurable objectives and (2) an implementation plan for achieving those objectives. The department informs us that its report is in progress, and will be completed by March 1, 1986.

IHSS Revised Allocation Formula. The *Supplemental Report of the 1985 Budget Act* required the DSS to evaluate the effect on each county's IHSS program of the 1984–85 and 1985–86 allocations, and submit a report on its findings to the Legislature by January 1, 1986. These allocations were based on a different formula than the one used before 1984–85. The department informs us that the report is complete, and that it will be submitted to the Legislature following the completion of a departmental review.

IHSS Pilot Project. The *Supplemental Report of the 1984 Budget Act* required the DSS to submit an interim report by December 1985, based on the experience of a pilot program in Santa Cruz County. The pilot program is intended to compare the cost-effectiveness and quality of care associated with both contract and individual provider modes of service delivery. The department has submitted the required report which describes (1) the county's experience in negotiating and awarding its contract for services, (2) the effect on some recipients of the transition to the contract mode, (3) the project's research design, including the comparative data that the county will collect, and (4) two project innovations, including a revised "Equity" program, which is a computer-assisted assessment system. We discuss this report further in our analysis of Item 5180-151.

Work Incentive Demonstration (WIN-Demo) Program. The *Supplemental Report of the 1985 Budget Act* required the DSS to submit a report by January 1, 1986, on the transfer of responsibility for registration and referral under the WIN-Demo program from the Employment Development Department to county welfare departments. At the time this analysis was prepared, the department had not submitted the report to the Legislature.

County Welfare Department Performance. The *Supplemental Report of the 1985 Budget Act* required the DSS to submit a report by December 1, 1985, on its progress in implementing a system to collect data reflecting the effectiveness of counties in administering the Aid to Families with Dependent Children (AFDC) and the Food Stamps programs. The supplemental report specified a variety of performance indicators that should be included in the system, including measurements of how promptly counties process applications for aid. At the time this analysis was prepared, the department had not submitted the report to the Legislature.

Department of Social Services

AID TO FAMILIES WITH DEPENDENT CHILDREN

Item 5180-101 from the General Fund and Federal Trust Fund — Budget p. HW 150

Requested 1986–87	$1,833,927,000[a]
Estimated 1985–86	1,828,902,000
Actual 1984–85	1,591,829,000
Requested increase $5,025,000 (+0.3 percent)	
Total recommended reduction	$3,367,000
Recommendation pending	$15,400,000

[a] Includes $80,678,000 in Item 5180-181-001 (c) to provide a 4.9 percent cost-of-living adjustment.

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-101-001—Payments for Children	General	$1,753,249,000
5180-101-890—Payments for Children	Federal	(1,825,429,000)
5180-181-001 (c)—Cost-of-Living Adjustments	General	80,678,000
5180-181-890—Cost-of-Living Adjustments	Federal	(94,594,000)
Total		$1,833,927,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Aid to Families with Dependent Children-Family Group (AFDC-FG) Caseload. Recommend that, prior to budget hearings, the Department of Social Services (DSS) report to the fiscal committees on its progress in incorporating specified noneconomic factors in its May revision estimate of family group caseloads. 920
2. Aid to Families with Dependent Children-Foster Care (AFDC-FC) Caseload. Recommend that, prior to budget hearings, the Department of Social Services report to the fiscal committees on its progress in incorporating specified factors in its May revision estimate of foster care caseloads. 922
3. Foster Care Services for Handicapped Children (Ch 1274/85). Recommend the Department of Finance advise the fiscal committees of the amount needed to provide foster care services to handicapped children pursuant to Ch 1274/85. 924
4. Foster Parent Training Fund Transfer. Recommend the Department of Finance advise the fiscal committees on how it intends to finance the transfer of $1.8 million in General Fund monies in 1986–87 from the Foster Care Program to the Foster Parent Training Fund, as required by current law. 925
5. Reduced Federal Funding Due to *Simon v. McMahon.* Recommend that, prior to budget hearings, the Department of Social Services report to the fiscal committees on its progress in securing a waiver from the federal govern- 925

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

ment in order to avoid a cost shift to the state and county governments for AFDC cases affected by the ruling in *Simon v. McMahon.*

6. Greater Avenues for Independence (GAIN) Program—AFDC Grant Savings. Withhold recommendation on $36 million ($15,400,000 General Fund, $18,800,000 federal funds, and $1,800,000 county funds) in grant savings budgeted for AFDC caseload reductions expected to result from the GAIN program, pending receipt of an up-to-date estimate. 927
7. Child Support Enforcement Program. 928
   (a) Recommend that, prior to budget hearings, the department provide the fiscal committees with a cost estimate for a study of various child support collection techniques.
   (b) Recommend adoption of legislation establishing an allocation formula that sets incentive payments equal to a *fixed* percentage of collections.
   (c) Recommend adoption of legislation phasing in the inclusion of non-AFDC collections as part of the base on which the incentive formula will be applied.
   (d) Recommend adoption of legislation retaining the current requirement that counties use child support incentive payments to support the Child Support Enforcement Program, sunsetting this requirement on July 1, 1988, and requiring the DSS to report by December 1, 1988, on the advisability of postponing the sunset date.
8. Welfare Fraud Early Detection/Prevention (FRED) Program. Recommend adoption of Budget Bill language requiring the Department of Social Services to report to the Legislature by December 1, 1986, on the potential costs and savings of mandating the FRED program. 933
9. ***Asset Clearance Match. Reduce Item 5180-101-001 by $1,931,000 and Item 5180-101-890 by $2,173,000.*** Recommend reduction of $1,931,000 to reflect more accurate estimate of the AFDC grant savings that will result from the asset clearance match. 935
10. ***Integrated Earnings Clearance. Reduce Item 5180-101-001 by $1,436,000 and Item 5180-101-890 by $1,633,000.*** Recommend reduction of $1,436,000 to reflect a more accurate estimate of the savings that will result from the integrated earnings clearance. 936

GENERAL PROGRAM STATEMENT

The Aid to Families with Dependent Children (AFDC) program provides cash grants to certain families and children whose income is not adequate to provide for their basic needs. Specifically, the program provides grants to needy families and children who meet any of the following criteria:

AFDC-FG. Families are eligible for grants under the AFDC-Family Group (AFDC-FG) program if they have a child who is financially needy due to the *death, incapacity, or continued absence* of one or both parents.

In the current year, an average of 478,100 families each month will receive grants through the AFDC-FG program.

AFDC-U. Families are eligible for grants under the AFDC-Unemployed Parent (AFDC-U) program if they have a child who is financially needy due to the *unemployment* of one or both parents. In the current year, an average of 75,810 families each month will receive grants through the AFDC-U program.

AFDC-FC. Children are eligible for grants under the AFDC-Foster Care (AFDC-FC) program if they are living with a licensed or certified foster care provider pursuant to either a court order or a voluntary agreement between the child's parent(s) and a county welfare or probation department. In the current year, an average of 36,540 children each month will receive grants through the AFDC-FC program.

In addition, the Adoption Assistance program provides assistance to parents who adopt children who have special needs that make them difficult to place in adoptions.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $1,833,927,000 from the General Fund for AFDC cash grants in 1986–87. The amount includes $1,753,249,000 in Item 5180-101-001 and an additional $80,678,000 requested in Item 5180-181-001 (c) to provide a 4.9 percent cost-of-living increase in maximum AFDC-Family Group (AFDC-FG) and AFDC-Unemployed Parent (AFDC-U) grants. (The budget does not propose to provide a cost-of-living increase in the rates paid to foster care providers.) This is an increase of $5,025,000, or 0.3 percent, from estimated 1985–86 expenditures.

As shown in Table 1, total expenditures from all funds for AFDC cash grants are budgeted at $3,918 million in 1986–87. This is $6 million, or 0.1 percent, above estimated expenditures in the current year.

Table 1 shows the costs of AFDC programs for 1984–85 through 1986–87. 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 provide to *Non-Refugee* AFDC recipients who are eligible under the federal Family Group and Unemployed Parent programs, and 50 percent, 47.5 percent and 2.5 percent, respectively, toward the costs of foster care grants. The federal government's 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 these families' first 36 months in the United States. The state's share of total foster care costs exceeds 47.5 percent because the state pays 95 percent (and the counties pay 5 percent) of foster care costs which are not eligible for federal funding under federal law.

For those AFDC-FG and U 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 $3,065 million (all funds), or 75 percent, of total estimated grant costs under the three major AFDC programs (excluding Child Support Collections). The Unemployed Parent program accounts for 16 percent of the total, and the Foster Care program accounts for 9 percent.

Table 1
Expenditures for AFDC Grants, by Category of Recipient 1984–85 through 1986–87 (in thousands)

	Actual 1984–85					*Estimated 1985–86*				*Proposed 1986–87*[c]			
Recipient Category	*State*	*Federal*	*County*	*ICF*[a]	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
Family groups	$1,197,693	$1,363,094	$145,009	—	$2,705,796	$1,362,700	$1,529,867	$164,990	$3,057,557	$1,369,579	$1,529,782	$165,876	$3,065,257
Unemployed parent	242,231	327,369	29,331	—	598,931	268,807	357,471	32,544	658,822	266,300	358,075	32,255	656,610
Foster Care	201,614	68,277	10,610	—	280,501	245,321	82,869	12,912	341,102	248,894	84,156	13,101	346,151
Adoption programs	6,456	1,120	—	—	7,576	8,239	2,162	—	10,401	10,262	3,491	—	13,753
Child support incentive payments to counties	13,690	19,753	−32,288	633	1,788	16,325	22,253	−38,272	306	14,964	23,404	−38,368	—
Child support collections	−69,855	−73,407	−8,159	—	−151,421	−72,490	−75,133	−8,401	−156,024	−76,072	−78,885	−8,818	−163,775
Subtotals	$1,591,829	$1,706,206	$144,503	$633	$3,443,171	$1,828,902	$1,919,489	$163,773	$3,912,164	$1,833,927	$1,921,802	$164,046	$3,917,996
Court-ordered retroactive payments	(115)	(131)	(14)	—	(260)	(36,671)	(42,041)	(4,440)	(83,152)	—	—	—	—
AFDC cash grants to refugees													
Time-expired[b]	(116,598)	(128,357)	(14,117)	—	(259,072)	(138,147)	(152,222)	($16,727)	(307,096)	(164,157)	(180,881)	(19,876)	(364,914)
Time-eligible	—	(50,356)	—	—	(50,356)	—	(93,943)	—	(93,943)	—	(100,386)	—	(100,386)
Totals	$1,591,829	$1,706,206	$144,503	$633	$3,443,171	$1,828,902	$1,919,489	$163,773	$3,912,164	$1,833,927	$1,921,802	$164,046	$3,917,996

NOTE: Detail may not add to total due to rounding.
[a] Interstate collection incentive fund.
[b] Estimated expenditures—no actual data available.
[c] Includes funds for a 4.9 percent cost-of-living adjustment.

Proposed General Fund Budget Changes

Table 2

Proposed General Fund Changes for AFDC Grants (dollars in thousands)

	Cost	Total
1985 Budget Act		$1,731,609
Adjustments to Appropriation		
1. Caseload increase		
a. AFDC-FG and U	$49,268	
b. AFDC-FC		
(i) Group home placements	23,969	
(ii) Other	4,713	
Subtotal		$77,950
2. *Simon v. McMahon*		$12,730
3. Reduced fraud detection savings		$3,667
4. Other adjustments		$2,946
Total, adjustments to appropriation		($97,293)
1985–86 Expenditures (Revised)		$1,828,902
A. Adjustments		
1. Caseload increase		
a. AFDC-FG and U	−6,323	
b. AFDC-FC		
(i) Group home placements	2,485	
(ii) Other	1,088	
c. Adoption assistance	2,023	
Subtotal		−$727
2. State and federal legislation		
a. Ch 1441/84 (technical overpayments)	−24	
b. Ch 1151/83 (bonus child support incentive)	−1,844	
c. HR 4179 DEFRA	38	
Subtotal		−$1,830
3. Court cases		
a. *Simon v. McMahon*	6,304	
b. Consolidated cases	−52,423	
c. Other	2,410	
Subtotal		−$48,529
4. Increased grant savings due to fraud detection		
a. FRED	−3,515	
b. Integrated clearance	−27	
c. FTB match	−1,549	
Subtotal		−$5,091
5. Grant savings due to GAIN		−$15,400
6. SAWS		
a. Central data base	−391	
b. Automated intake	−1,170	
Subtotal		−$1,561
7. Child support collections		
a. Basic collections	−1,872	
b. Intercept systems	−420	
c. Collections from other states	−1,290	
Subtotal		−$3,582
8. Other adjustments		$1,067
Total, adjustments		(−$75,653)
B. Proposed Changes		
1. 1986–87 cost-of-living adjustments		
a. AFDC-FG and U (4.9%)		$80,678
C. 1986–87 Expenditures (Proposed)		$1,833,927
Change from 1985 Budget Act:		
Amount		$102,318
Percent		5.9%
Change from 1985–86 Estimated Expenditures:		
Amount		$5,025
Percent		0.3%

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Table 2 shows the factors resulting in the net increase of $5,025,000 in General Fund support proposed for the AFDC program in 1986–87. As the table shows, the largest cost *increases* projected for 1986–87 are attributable to:

- A 4.9 percent COLA proposed for AFDC-FG and AFDC-U recipients ($80,678,000).
- The increased costs resulting from the judgment against the state in the *Simon v. McMahon* court cases ($6,304,000).
- The expected increase in the foster care caseload ($3,573,000).

These increases are partially offset by *reductions* attributable to:

- One-time costs associated with a group of court cases known as the "consolidated court cases" ($52,423,000).
- Grant savings resulting from implementation of the Greater Avenues for Independence (GAIN) program ($15,400,000).
- The expected reduction in the AFDC-FG and U caseload ($6,323,000).
- Grant savings resulting from increased welfare fraud detection and prevention activities ($5,091,000).
- Increased child support collections ($3,582,000).

The table shows that the $5 million increase proposed for 1986–87 represents a 0.3 percent increase over the department's estimate of General Fund expenditures in the current year. The level of expenditures proposed in the budget, however, is 5.9 percent above the amount *appropriated* by the 1985 Budget Act.

The department estimates that General Fund expenditures in the current year will exceed the amount appropriated in the Budget Act by $97,293,000. This results from (1) AFDC caseloads that are 2.1 percent higher than the caseloads assumed in the 1985 Budget Act ($77,950,000) and (2) the unanticipated costs stemming from a judgement against the state handed down in the *Simon* case ($12,730,000).

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 1986–87, the AFDC caseload is expected to decrease by 10,508 persons from the revised estimate of caseload in 1985–86. As the table shows, this reduction reflects (1) a reduction of 11,270 persons, or 3.2 percent, in the AFDC-U caseload and (2) a reduction of 80 persons, or 0.01 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) 2. Child care expenses (up to $160 per child) 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]	1. 18 percent of earned income 2. Standard deduction ($95) 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.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Maximum Payment Levels

Table 5 shows the maximum grant levels in 1985–86 for selected family sizes under the family group and unemployed parent components of the AFDC program. It also shows the maximum grant levels for 1986–87, based on the 4.9 percent COLA proposed in the budget.

Table 4

Aid to Families with Dependent Children
Average Number of Persons Receiving Assistance Per Month
1985–86 and 1986–87

Program	*1985–86 Estimated*	*1986–87 Proposed*	*Change Number*	*Change Percent*
AFDC-Family Group	1,276,560	1,276,480	−80	−0.01%
AFDC-Unemployed Parent	344,790	333,520	−11,270	−3.2
AFDC-Foster Care	36,540	37,000	460	1.3
Adoptions Assistance program	3,014	3,396	382	12.7
Refugees:[a]				
Time-eligible	(48,408)	(49,733)	(1,325)	2.7
Time-expired	(151,217)	(169,683)	(18,466)	12.2
Totals	1,660,904	1,650,396	−10,508	−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-FG and U Grant Levels
1985–86 and 1986–87

Family Size	*1985–86*	*1986–87[a] Amount*	*1986–87[a] Change*
1	$288	$302	$14
2	474	497	23
3	587	616	29
4	698	732	34
5	796	835	39

[a] Based on an estimated 4.9 percent increase in the California Necessities Index (CNI) during 1985.

ANALYSIS AND RECOMMENDATIONS

AFDC-FG Caseload Estimate Is Not Consistent With Recent Trends

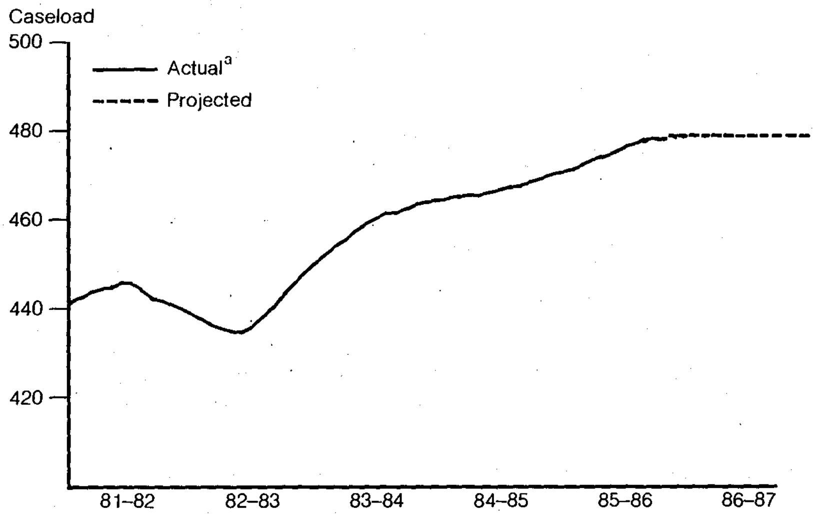
We recommend that, prior to budget hearings, the department advise the fiscal committees of its progress in incorporating in its May revision estimate of the AFDC-FG caseloads, changes in refugee caseload and changes in California's marriage, divorce, and illegitimate birth rates.

The budget proposes total spending of $3,065 million (including the costs of the proposed 4.9 percent COLA) in 1986–87 for cash grants to AFDC-FG recipients. This proposal assumes an average monthly AFDC-FG caseload of 478,080 cases, which represents 1,276,480 persons on aid. This is approximately the same caseload anticipated for the current year.

Chart 1 displays the actual AFDC-FG caseloads from 1981–82 through 1984–85, and the department's projection of the caseload in the budget year. As the chart shows, the department assumes that the steady increase in caseload which has occurred in the recent past will level off by the beginning of 1986–87. This assumption has significant consequences for the budget totals. If the actual caseload trends observed between 1981–82 and 1984–85 continued through 1986–87, this would result in 495,000 cases per month, during 1986–87—17,000 cases, or 3.5 percent, *more* than the budget anticipates. This would increase 1986–87 General Fund costs above the budget estimate by $48 million.

Chart 1

AFDC-FG Caseloads, Actual and Projected
Seasonally Adjusted
1981–82 through 1986–87 (in thousands)



[a] Because the data shown is seasonally adjusted, caseloads for 1985–86 consist of projected, as well as actual, caseloads.

The reason why the department assumes that there will be no increase in the AFDC-FG caseload during 1986–87, despite recent trends, is that *it can find no satisfactory explanation for the recent steady increases in the caseload.* The department points out that these increases in caseload have occurred during a period of steadily declining unemployment and general economic recovery. Moreover, the available data indicate that changes in eligibility standards account for only a very limited portion of the caseload growth that has occurred since 1983. The department believes it would be unwise to project a simple continuation of the recent trend absent an understanding of the forces causing the trend, or some basis for believing that the trend will, in fact, continue into the budget year.

We agree that the recent increases in caseloads are perplexing. While the correlation between economic conditions and AFDC-FG caseloads has

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

never been adequate to explain all of the fluctuations in caseloads, it is reasonable to expect that caseloads would at least remain stable in good economic times. There are, however, several *noneconomic* factors which may explain the recent caseload increases. For example, the number of refugees in the state has been increasing steadily. Because of language and cultural barriers, these individuals are less likely than are other potential AFDC recipients to take immediate advantage of improvements in the economy.

Another noneconomic factor that could explain the recent increases in caseload is the change in household composition. A recent study published by the Department of Health and Human Services found that 45 percent of new AFDC recipients enter the program as a result of becoming divorced or widowed. Another 30 percent of new recipients enter the program as a result of becoming pregnant or having a child out of wedlock. *Only 12 percent of new recipients enter the program due to a loss of or reduction in their earnings.* The same study found that 45 percent of the recipients who leave the program do so because of a change in household composition, while 32 percent leave as a result of an increase in their earnings.

Thus, changes in the marriage, divorce, or illegitimate birth rates within California *could* explain some of the recent increase in AFDC caseloads.

Obviously, we cannot confirm that the recent caseload increases are due to either of these factors—the increase in California's refugee population or changes in household composition. These factors, however, are worth exploring further to see if they *can* explain why caseloads have increased in the face of economic prosperity.

We, therefore, recommend that, prior to budget hearings, the department advise the fiscal committees of its success in incorporating in its May revision estimate of AFDC-FG caseloads the following noneconomic factors: (1) changes in refugee caseloads and (2) changes in California's marriage, divorce, and illegitimate birth rates.

Foster Care Caseload Estimate Is Not Consistent With Recent Trends

We recommend that, prior to budget hearings, the department advise the fiscal committees on its progress in incorporating specific factors in its estimate of the foster care caseloads for the May revision.

The budget proposes total spending of $346,151,000 for the AFDC-Foster Care (AFDC-FC) program in 1986–87. This amount includes $248,894,000 from the General Fund, $84,156,000 in federal funds, and $13,101,000 in county funds. The expenditure proposal assumes that there will be an average of 37,000 children in foster care during 1986–87. This is approximately the same caseload anticipated for the current year.

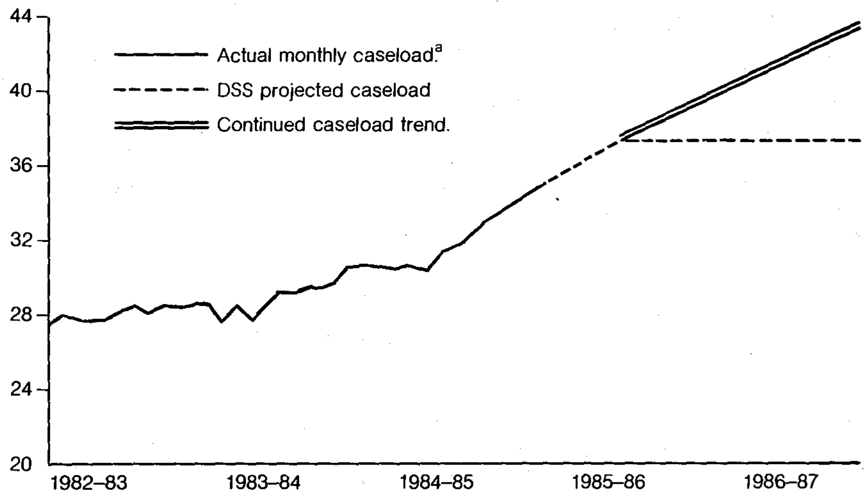
Chart 2 shows the actual caseload for the Foster Care program from July 1982 through September 1985 as well as the department's caseload projection for the remainder of the current year and the budget year.

As the chart shows, the foster care caseload grew at an average annual rate of 12 percent between July 1982 and September 1985. The department projected that the foster care caseload would increase to 37,000 children in December 1985, at which time it would level off for the next 18 months. At the time this analysis was prepared the department did not have the December caseload data.

The chart also shows what the foster care caseload would be in 1986–87 *if* recent trends continue through 1986–87. Were this to happen, the foster care caseload would increase to approximately 43,400 cases per month by the end of the budget year. This increase would result in *additional* costs above the budget amount of about $59.7 million. Approximately $42.9 million of this amount would have to be financed by the General Fund.

Chart 1

Foster Care Caseload, Actual and Projected June 1982 through June 1987 (in thousands)



[a] Because data for 1985–86 is seasonally adjusted, it includes actual and projected caseloads.

The department advises that it chose to extend out the AFDC-FC caseload at the anticipated December 1985 level because it had no reason to believe that caseloads would continue to increase. While the foster care caseload may not continue to increase at the same rate as in the past, it is unlikely that it will suddenly level off.

There are several factors which the department did not take into consideration which may affect foster care caseloads during 1986–87. For example, the department should consider the number of reports charging child abuse as well as the number of emergency assistance referrals when it projects the foster care caseloads. This is because children who are abused and neglected or are receiving emergency assistance services may eventually be removed from their homes and be placed in foster care homes. To the extent that child abuse reports and emergency response referrals continue to increase, it is reasonable to expect a proportional increase in foster care caseloads.

Another factor that may affect foster care caseloads is the Child Welfare Services (CWS) system. The budget proposes an additional $19 million from the General Fund in order to fully fund the state's share of actual

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

county costs between 1981–82 and 1984–85. With these additional funds, counties are expected to increase CWS staffing. This is likely to change the rate of growth in foster care caseloads. With increased funding, counties may put more emphasis on the preplacement preventive services. These services are provided to children and their families while the child still resides in his or her own home, in hopes of avoiding foster care placement. If counties choose to increase these preplacement services, the rate of foster care caseload growth could slow down.

On the other hand, counties may use the additional funds to increase staffing in the emergency response progam. This program provides emergency services to abused and neglected children. If the counties increase staffing for this function, they may respond to reports of abuse that, in the past, they have deemed to be low priority. An increase in emergency response (ER) staffing, coupled with increased reports of abuse, could result in a faster rate of growth in foster care caseloads.

Another factor that may affect foster care caseloads is the extent to which probation departments place children who are under their supervision in foster care. In general, probation departments supervise children who are considered delinquent. Probation departments can place these children in facilities which are funded almost 100 percent by the county or in foster care facilities for which the county's share of cost is 5 percent. It would be important to determine if the recent increase in total foster care caseloads is attributable, at least in part, to an increase in the rate at which probation departments are placing children under their supervision in foster care facilities.

The department should examine these and other factors to see if they can explain the caseload increases shown in Chart 2. We recommend that, prior to budget hearings, the Department of Social Services advise the fiscal committees on its progress in incorporating the following factors in estimating the foster care caseloads for the May revision: (1) the number of child abuse reports, (2) the number of emergency assistance referrals which result in foster care placement, and (3) the number of children who are placed in foster care and supervised by probation departments.

Costs of Foster Care Services for Handicapped Children

We recommend that the department advise the fiscal committees how much funding is needed to meet the requirements of Ch 1274/85.

Foster care services are provided to children who have been placed out of their own homes due to the loss of parental support, because of a court order, or pursuant to an Individualized Education Plan (IEP). The purpose of IEPs is to ensure that children who have been determined as handicapped receive appropriate education and services. The education and services may include special education classes, various types of therapy, or out-of-home placement in a private education institution. Currently, if the child is under the custody of the courts, the funds for these out-of-home placements are provided by the AFDC appropriation (Item 5180-101-001).

Chapter 1274, Statutes of 1985 (AB 882), requires that funds for these out-of-home care placements be appropriated from a separate item within the budget, starting July 1, 1986. The 1986 Budget Bill, however, does not contain the separate appropriation required by Chapter 1274.

The department advises that the budget does not contain a separate appropriation for these costs because it does not have an estimate of the number of children receiving foster care payments pursuant to an IEP. In addition, the department could not estimate any potential caseload increase that might occur due to the provisions of Chapter 1274. The department advises us, however, that it intends to include an estimate of these costs in the May revision.

It is possible that Chapter 1274 could increase foster care caseloads because under the provisions of the bill, parents no longer have to transfer custody of their children to the courts in order to place a child in foster care pursuant to an IEP. To the extent that more parents take advantage of this provision, there will be an increase in foster care costs. Therefore, we recommend that the department advise the Legislature how much is needed to provide out-of-home care for severely emotionally disturbed children pursuant to Chapter 1274.

Budget Fails to Transfer Funds to the Foster Parent Training Fund

We recommend that, prior to budget hearings, the Department of Finance advise the fiscal committees how it intends to finance the transfer of $1.8 million from the Foster Care program to the Foster Parent Training Fund as required by current law.

Under current law, parents of children who are placed in foster care are required to pay for a portion of their children's out-of-home care costs if they are financially able to do so. These collections are used to offset the state, county, and federal costs of the Foster Care program.

State law requires that the General Fund share of child support collections exceeding $3.75 million be transferred to the Foster Parent Training Fund. The Foster Parent Training Fund provides money to both foster parent training programs run by community colleges and foster youth services sponsored by local school districts.

The budget estimates that the General Fund's share of child support collections for the Foster Care program in 1986–87 will total $5.6 million. This is approximately $1.8 million over the ceiling of $3.75 million. Therefore under the provisions of current law, $1.8 million must be transferred in the budget year from DSS to the Foster Parent Training Fund, for use by community colleges and local school districts. The department, however, did not take this requirement into consideration when preparing the budget for 1986–87. Thus, the transfer of these funds will cause the Foster Care program to be underfunded by $1.8 million in 1986–87. It also will cause General Fund expenditures in 1986–87 to exceed the amount shown in the budget by $1.8 million.

We also note that foster care support collections in the current year will exceed the $3.75 million ceiling by about $1.6 million. This will cost the Foster Care program another $1.6 million because of the required transfer and further reduce the General Fund balance at the end of 1986–87.

We recommend that, prior to budget hearings, the Department of Finance advise the fiscal committees how it intends to finance the transfer of $1.8 million from the Foster Care program to the Foster Parent Training Fund as required by current law in 1986–87.

Budget Proposal Depends on the Federal Government "Waiving the Unwaivable and Allowing the Unallowable"

We recommend that, prior to budget hearings, the department advise the fiscal committees on its progress in securing the federal waivers needed to avoid a $46,855,000 ($40,030,000 General Fund and $6,825,000 county

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

funds) cost shift from the federal government to the state and counties which otherwise will occur as a result of the Simon v. McMahon case.

The budget proposes $21,339,000 ($19,034,000 General Fund and $2,305,-000 county funds) to pay the costs in 1986–87 of complying with the court's ruling in the *Simon v. McMahon* case. In its ruling, the California Supreme Court struck down a state law which required that children with "restricted" income be included as part of the AFDC family for purposes of calculating the family's grant. ("Restricted" income is income that is received exclusively for the use of a particular child in an AFDC family.)

The effect of the court's order will be to give AFDC parents the option of excluding children with restricted income from the "assistance unit" (the assistance unit consist of the members of an AFDC household for whose needs the AFDC grant is intended). This will mean that the income of these children will not be counted as income to the family. In most cases, the exclusion of such children (and their income) will result in a higher grant to the family and, therefore, increased costs to the state and counties.

The DSS estimates that the court's decision will increase General Fund costs for grants under the AFDC program by $28.1 million in 1985–86 and by $42.0 million in 1986–87. In addition, the department estimates that the decision will increase the General Fund costs of administering the AFDC program by $1.1 million in 1985–86 and by $1.0 million in 1986–87. The department also estimates that total county costs will increase by $4.7 million in 1985–86 and $6.4 million in 1986–87.

Table 6 displays the department's estimate of costs attributable to the *Simon* case in 1985–86 and 1986–87.

Table 6
Fiscal Effect[a] of *Simon v. McMahon*
1985–86 and 1986–87
(dollars in thousands)

1985–86	*General Fund*	*Federal Funds*	*County Funds*	*Totals*
Increased Program Costs	$13,093	—	$1,922	$15,015
Cost Shift	16,055	–$18,792	2,737	—
Totals	$29,148	–$18,792	$4,659	$15,015
1986–87				
Increased Program Costs	$19,034	—	$2,305	$21,339
Cost Shift	23,975	–$28,063	4,088	—
Totals	$43,009	–$28,063	$6,393	$21,339

[a]Includes administrative costs which would normally be budgeted under Item 5180-141-001—County Administration of Welfare Programs.

As the table shows, the costs of the *Simon* case consist of the following two components:

- ***Increased program costs*** ($15.0 million in 1985–86 and $21.3 million in 1986–87). These are the increased grant and administrative costs associated with the court's ruling that AFDC parents be given the option of excluding children with restricted income from the assistance unit.
- ***Cost shift*** ($18.8 million in 1985–86 and $28.0 million in 1986–87). The

court's decision will shift grant and administrative costs from the federal government to the state and counties. This is because under federal regulations, parents do *not* have the option of excluding children with restricted income from the assistance unit. As a result, the federal government will no longer fund its share of grant and administrative costs for these families. Thus, the court, in effect, has created a "state-only" program, and as a result the state and counties will have to fund those costs formerly covered with federal money.

The budget includes sufficient funds to cover the increased *program* costs identified in the department's estimate. It does not, however, include the funds needed to cover the state's share of the costs which the federal government no longer will fund. The department advises that it did not budget funds to cover these costs because it is planning to seek a waiver from the federal Department of Health and Human Services (DHHS) that would allow the state to continue receiving federal financial participation for the grants to families affected by the *Simon* case. Specifically, the department will ask DHHS to participate in that portion of the grants representing what the family would have received under the pre-Simon rules.

A federal official has informed us that, in order for California to continue receiving federal financial participation for these costs, the DHHS will have to "waive the unwaivable and allow the unallowable." There is a provision of federal law, however, that, in effect, permits the Secretary of Health and Human Services to do exactly that. The budget proposal assumes that the Secretary will exercise this broad authority to waive all relevant federal AFDC regulations and grant California's request for a waiver for the *Simon* case.

We do not know whether the Secretary will grant the department's waiver request. Given the cuts in federal programs made necessary by the Gramm-Rudman amendment, it would be not just a little surprising if the DHHS voluntarily increased federal aid to California by nearly $30 million next year.

In the event that the Secretary does not grant the request, the cost to the state and counties of the AFDC program in 1985–86 and 1986–87 will be $46,822,000 ($40,030,000 General Fund and $6,792,000 county funds) higher than anticipated by the budget. An increase of this magnitude would reduce the Legislature's fiscal flexibility in putting together a budget for 1986–87. We therefore recommend that the department advise the fiscal committees, prior to budget hearings, on its progress in securing the federal waiver.

The Grant Savings from GAIN Anticipated by the Budget Are Based on an Out-Dated Estimate

We withhold recommendation on $36,000,000 ($15,400,000 General Fund, $18,800,000 federal funds, and $1,800,000 county funds) in savings anticipated from the Greater Avenues for Independence (GAIN) program, pending receipt of an up-to-date estimate.

Chapter 1025, Statutes of 1985, created the Greater Avenues for Independence (GAIN) program. This progam provides employment and training services to AFDC recipients to help them to become financially self-sufficient. The AFDC budget anticipates that these services will result in grant savings totaling $36 million ($15.4 million General Fund, $18.8 million federal funds, and $1.8 million county funds) in 1986–87. We discuss the department's fiscal estimate for the GAIN program in our analysis

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of the social services programs item (please see Item 5180-151-001).

We note in that analysis that the department's estimate of the program costs is out-of-date for several reasons, including the fact that the estimate assumes an implementation date of January 1, 1986. The department advises that counties probably will not begin implementing the GAIN program prior to July 1, 1986. This delay will greatly reduce the savings that the program will generate in 1986–87. Therefore, we withhold recommendation on the savings budgeted for the AFDC program as a result of the GAIN program, pending the receipt of a more up-to-date estimate.

CHILD SUPPORT ENFORCEMENT PROGRAM

Review of Program Performance

1. *We recommend that, prior to budget hearings, the department provide the fiscal committees with an estimate of what it would cost to conduct a controlled study of the various child support enforcement strategies.*
2. *We recommend that the Legislature adopt legislation establishing an incentive allocation formula based on a fixed, rather than a varying, percentage of child support collections.*
3. *We recommend that the Legislature adopt legislation phasing in of non-AFDC collections as part of the base on which the incentive payments will be paid.*
4. *We recommend that the Legislature adopt legislation retaining the current requirement that counties use child support incentive payments to support the Child Support Enforcement program, sunsetting this requirement on July 1, 1988, and requiring the DSS to report by January 1, 1988, on the advisability of postponing the sunset.*

The Child Support Enforcement program is a revenue-producing program administered by district attorneys' offices throughout the state. Through this program, district attorneys locate absent parents, establish paternity, and obtain and enforce court-ordered child support payments. This service is available to welfare recipients and nonwelfare families. Child support payments collected on behalf of AFDC recipients are used to reduce state, county, and federal welfare costs. Collections on behalf of nonwelfare clients are distributed directly to the client.

In a report on California's child support program published in September 1985 (LAO Report No. 85-21), we reviewed the performance of California's child support program and the potential effect of recently enacted federal legislation (PL 98-378) on the program. In the report, we recommended legislative action to (1) conform state law to federal regulations, (2) identify the most effective enforcement strategies, and (3) improve the performance of the program. Specifically, the report contains the recommendations listed above.

REVIEW OF THE WELFARE FRAUD EARLY DETECTION/PREVENTION PROGRAM

The 1983 Budget Act established the Fraud Early Detection/Prevention (FRED) program in order to detect and prevent fraud at the time an individual applies for AFDC and/or food stamp benefits. The FRED program was modeled after a pilot program implemented by Orange County in early 1980.

The 1983 Budget Act required all counties that processed a specified number of AFDC and food stamp applications to submit a report to the DSS by August 15, 1983, on their existing fraud prevention programs. Any county which determined that its existing program was not as cost-beneficial as the Orange County pilot project was authorized to seek funds from the department to implement a program comparable to Orange County's. To date, 23 counties have applied for and received funds to operate a FRED program. One of these counties (San Mateo) began program operation in 1983; 16 began in 1984; 2 began in 1985; and 4 (Santa Clara, Santa Cruz, Fresno, and Yuba) plan to commence operation of a FRED program in early 1986.

While each county's FRED program is unique, they all fit the basic structure envisioned in the 1983 Budget Act. Basically, the program involves assigning welfare fraud investigators or specially trained investigative-eligiblity workers to work with countly welfare department eligiblity staff. The investigators are on-call to conduct in-depth investigations of the statements made by applicants for welfare.

Eligibility workers refer cases to the fraud investigators whenever (1) the statements made by the applicant establish eligibility for welfare *and* (2) the intake worker has reason to believe that one or more of the statements in the application is false. For example, the intake worker might suspect the applicant had falsified his/her application if the person indicates on the application that he/she had no means of support during the current or preceding months. Such a response would raise doubts because it is difficult to understand how a family could survive for several months with no means of support.

Intake workers in Orange County refer approximately 8 percent of all welfare applications they process to FRED investigators.

When an investigator is assigned to a case, he or she uses standard investigative techniques to verify the facts set out in the welfare application. These techniques include interviews with the applicant in the welfare office, visits to the applicant's home, and interviews with individuals who may have personal knowledge of the applicant's situation. Investigators in Orange County find that about 50 percent of the applications referred to them by intake workers result in a denial of aid or in the recipient withdrawing his/her application.

The FRED Program Has Been Successful in Those Counties that Have Implemented It

In order to determine whether the FRED program has been successful in those counties where it has been implemented, we identified two important indicators of the program's performance—client protection and cost-effectiveness. Our review indicates that the program has been successful in achieving each of these goals.

Client Protection. The Budget Acts of 1983, 1984, and 1985 contained provisions designed to protect the rights of applicants for public assistance benefits. Specifically, counties are required to provide a complaint form to every applicant who withdraws his or her application after a fraud referral. These forms advise the client of his/her right to file a complaint either in person or through the mail. The DSS requires counties to retain all complaints.

In 1984, 20 counties operated FRED programs. They completed more than 19,000 investigations, which resulted in 7,457 applications being denied or withdrawn. Of those persons whose applications were denied or withdrawn, only 11 filed complaints and 7 of these complaints were un-

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related to the FRED program.

It seems highly likely that if any of the 20 counties were systematically using the program to intimidate applicants, a substantial number of the applicants who were denied aid would have lodged complaints. Moreover, the department advises that only nine clients who were denied aid as a result of the program in 1985, requested and received fair hearings. Of the nine fair hearings, three are still pending and five of the six that have been completed were decided in favor of the county.

Based on the relative dearth of complaints and the counties' success in FRED-related fair hearings, we conclude that the program has protected the rights of clients.

Cost-Effectiveness. The 1984 Budget Act required the department to report to the Legislature on the performance of the FRED program, including its cost-effectiveness. This report, issued in June 1985, concludes that for every dollar the counties spend to support the FRED program, they generate between $8.20 and $18.10 in welfare savings.

Our review of the department's report identified the following flaws in the methodology which the department used to estimate the program's benefit-to-cost ratio:

- The department estimated welfare cost avoidance based on the assumption that the average AFDC case receives aid for 24 months. This estimate was based on a sample of active cases. Based on a sample of *closed* cases, we estimate that the average duration of an AFDC case is approximately 17 months.
- The department assumed that 17 percent of the fraudulent applications would have been detected by another fraud detection program once the recipient actually began receiving aid. (We believe that the use of the average time on aid to calculate program savings should account for this factor because the sample used to estimate the average would include any cases that were closed as the result of a fraud investigation.)
- The department did not take into account the possibility that some applicants who were denied aid as a result of the FRED program would successfully reapply at a later date (without necessarily committing fraud in the process).

In addition to these methodological flaws, the department's report was based on performance data reflecting program results in 1983 and 1984—years in which several counties' programs were in operation for only a few months.

We believe that a report on the Orange County FRED program, issued by the U.S. Department of Health and Human Services (DHHS) in October 1985, provides a more reliable estimate of the benefit-to-cost ratio of the program. The report concludes that Orange County's FRED program returns between $16.60 and $33.81 in savings to state, federal, and county governments for every $1.00 in operating costs. The benefits of the program range between $16.60 and $33.81, depending on (1) what the average duration on aid is assumed to be and (2) the method used to estimate the costs of the program. We believe that the most reasonable combination of these two assumptions is the one which results in an estimated benefit-to-cost ratio of 22.1 to 1. Regardless of which set of assumptions is used, however, it is clear that the Orange County FRED program is highly cost-effective.

We reviewed the performance of 15 of the 19 counties, excluding Orange County, that operated FRED programs during 1985 using a methodology similar to the one used to prepare the DHHS report. Table 7 displays our estimate of the program's benefit-to-cost ratio, by county, as it applies to the AFDC program only. The table also shows the estimated benefit-to-cost ratio for each of the three levels of government involved in the program. The ratios are different because each level of government pays a different share of what it costs to administer the program and because each receives a different share of the savings that result from the program. The table clearly indicates that the program is highly cost-effective. On average, the program returns $17.80 in AFDC savings to the General Fund for every $1.00 in operating costs to the General Fund.

Table 7
The FRED Program
Estimated Benefit-to-Cost Ratio by Funding Source
1985

	Total Funds [a]	*General Fund*	*County Funds*	*Federal Funds* [a]
El Dorado	11.9	20.8	2.5	11.9
Glenn	12.9	22.7	2.7	12.9
Mendocino	15.8	27.8	3.4	15.8
Nevada	3.5	6.2	0.7	3.5
San Luis Obispo	8.9	15.7	1.9	8.9
San Mateo	17.9	31.4	3.8	17.9
Santa Barbara	43.8	76.9	9.3	43.8
Sonoma	45.1	79.2	9.6	45.1
Stanislaus	14.1	24.7	3.0	14.1
Sutter	24.8	43.6	5.3	24.8
Trinity	3.3	5.8	0.7	3.3
Tulare	36.6	64.2	7.8	36.6
Ventura	13.4	23.5	2.9	13.4
Yolo	7.2	12.6	1.5	7.2
Weighted average	10.1	17.8	2.1	10.1

[a] The federal funds benefit-to-cost ratio is the same as the total funds ratio because the federal government pays the same percentage share of administrative costs as it pays of grant costs.

Conclusion. We conclude that the FRED program has been highly cost-effective in the counties that have implemented it to date. In addition, the cost savings have been achieved while protecting the rights of applicants.

Why Haven't More Counties Implemented the FRED Program?

The 1983 Budget Act required that counties report to the DSS on the cost-effectiveness of their existing fraud detection programs. Most counties reported that their existing fraud detection programs were at least as cost-effective as Orange County's FRED program. Consequently, in the last three years, only 23 counties have requested additional funds to implement the program. In other words, the majority of counties believe that their current fraud detection programs are as effective as the FRED program.

There are several reasons to believe that non-FRED counties have underestimated the potential savings from implementing the FRED program:

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1. ***When the non-FRED counties analyzed their existing fraud programs, they were not aware of the actual cost-effectiveness of the Orange County FRED program.*** The DHHS report was not published until late 1985—more than two years after the effective date of the 1983 Budget Act which required counties to compare their existing detection programs to Orange County's program. Prior to the publication of the DHHS report, the cost-effectiveness of Orange County's program had not been independently verified.

2. ***The benefit-to-cost ratios displayed in Table 7 reflect FRED savings that have been achieved in addition to the savings generated by other fraud detection programs.*** In general, the counties that have implemented FRED programs continue to operate other fraud detection programs. Our estimate of savings associated with the FRED program does not include any savings from these other detection programs.

3. ***Most non-FRED counties emphasize detection of fraud in established cases, rather than prevention of fraud during the initial intake of cases.*** Detection of fraud at intake is more effective than detection of fraud in continuing cases for two reasons:

- ***It eliminates the need to collect reimbursements from recipients who have defrauded the program.*** This is because, when fraud is detected at intake, it prevents wrongful payments. This is important because, on average, counties recoup only 55 percent of the money wrongfully paid to fraudulent recipients.
- ***It reduces criminal justice costs.*** It does so by reducing the number of welfare fraud prosecutions. The FRED program results in prosecution for welfare fraud in 1.3 percent of the cases in which fraud is established. Other fraud detection programs lead to prosecution in approximately 15 percent of the cases where fraud is established.

4. ***Orange County detects substantially more fraud than do the other large counties.*** We compared the total number of fraud cases identified by Orange County through all of its fraud detection systems, including FRED, as a percentage of the county's AFDC caseload with the same figures for the other large counties. Table 8 displays the results of this comparison. As the table shows, Orange County detected three times more fraud than did the other large counties. We believe the difference can be attributed to the Orange County FRED program. This is because (a) the Orange County FRED program accounts for the bulk of the fraud detected by the county and (b) prior to the implementation of the FRED program, Orange County actually detected more fraud through its traditional detection programs than the other large counties were detecting through their programs.

For these reasons, we conclude that most of the non-FRED counties could significantly increase the effectiveness of their fraud detection programs by implementing a FRED program.

There are probably several reasons why the majority of counties (including most of the large counties) have not implemented a FRED program. Some counties may believe that the FRED program does not adequately protect the rights of clients. We have shown that this is not the case. Others may believe that their current programs detect fraud as effectively as the FRED program. We have shown that this is highly unlikely. Perhaps the most likely reason that counties have not implemented FRED is revealed by Table 7: the FRED program is much less cost-effective from a county's perspective than it is from the state or federal government's perspective.

Table 8
AFDC Fraud Detected as a Percent of Total Caseload
Orange County and Eleven Other Large Counties
(July 1983 through December 1983)

Eleven Large Counties	*Percent*
Riverside	3.2%
San Diego	3.1
San Bernardino	2.7
Fresno [a]	2.3
Los Angeles	2.2
Santa Clara [a]	1.8
Contra Costa	1.8
Alameda	1.7
San Francisco	1.5
San Joaquin	1.3
Sacramento [b]	1.2
Average	2.2%
Orange County	7.4%

[a] Fresno and Santa Clara County plan to implement FRED programs in early 1986.
[b] Sacramento County implemented a FRED program in May 1984.

Currently, counties finance 25 percent of the FRED program's operating costs (this sharing ratio also applies to other fraud detection programs). On the other hand, counties pay for only 5.4 percent of AFDC grant costs and therefore share in only 5.4 percent of any savings generated by the FRED program. As a result, the effect of the program on county budgets is much less favorable than it is on the state or federal budget. As the table shows, counties, on average, save $2.10 for every $1.00 they spend on the program, while the state saves $17.80 for every dollar it spends. For some counties, the program actually results in a net cost.

For these reasons, the counties' fiscal incentives to implement the FRED program, are relatively weak. Thus, counties—especially those with fiscal problems—may not consider the FRED program to be worthwhile, since costs must be incurred at the front end in order to achieve savings later on.

How Can the Legislature Encourage More Counties to Implement FRED Programs?

We recommend Budget Bill language requiring DSS to (1) assess the costs/savings of the FRED program in non-FRED counties and (2) report, by December 1, 1986 on the fiscal effects of mandating FRED on all counties.

There are probably only two options available to the Legislature for increasing the counties' use of the FRED program, other than increasing the counties' share of AFDC costs (which would give counties a greater stake in the savings associated with the program). We discuss these options below.

Wait and see. The first option is simply to wait and see if more counties implement the FRED program. As the benefits associated with the program become better understood, more counties *may* decide to implement it. In fact, the recent decisions of Fresno and Santa Clara counties to implement FRED programs may indicate that counties are becoming increasingly aware of the advantages to be gained from the program. On the other hand, other counties seem steadfast in their belief

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that their current detection programs are adequate. Thus, this option does not guarantee that all of the counties which could improve their fraud detection systems by implementing the FRED program will do so. To the extent counties which could benefit from the FRED program choose *not* to implement it, the state foregoes an opportunity to: (1) achieve substantial savings and (2) enhance the integrity of California's welfare programs.

Mandate FRED for those counties in which it would be cost-effective to do so. Under this option, the Legislature would authorize the department to require counties to implement FRED programs under specified circumstances. Specifically, the department would assess the potential benefits and costs from implementing the FRED program in individual counties, and require those counties where it would be cost-effective to implement the program. The drawback to this option is that it would create a state-mandated local program, obligating the state to pay for 100 percent of the program's nonfederal costs. The obvious advantage of this option is that it would allow the Legislature to ensure that all counties capable of operating a cost-effective FRED program are required to do so.

We have estimated the costs and savings that would be associated with the second option. The estimate assumes that *all* counties which currently do not operate a FRED program would be required to do so. (It is likely, however, that some counties would not be required to implement the FRED program because it would not be cost-effective for them to do so.) The estimate reflects a conservative assessment of the savings that would result from implementing FRED programs in counties where a program does not currently exist. This is because (1) it is based on the benefit-to-cost ratio of the current FRED counties other than Orange (Orange County's program is more cost-effective than the average FRED program) and (2) the savings used in the estimate include *only* grant savings; we did not include in our calculations savings in AFDC administrative costs, food stamp costs, or criminal justice system costs.

The estimate divides costs into two categories: (1) the state's 50 percent share of program costs in those counties that do *not* currently operate a FRED program (the federal government would pay for the other 50 percent of the program's costs) and (2) an additional 25 percent share of FRED program costs in counties that already operate the program. (The state currently pays 25 percent of the costs in these counties, but because the program would be mandated, rather than voluntary, the state would have to pick up the current county share of costs.) Table 9 displays our estimates of the costs and savings to be gained from mandating the FRED program statewide.

Table 9

Estimated Costs and Savings to the State of Mandating Counties to Implement the FRED Program

	Costs	*Savings*	*Net Fiscal Effect*	*Savings-to-Cost Ratio*
Counties that already operate FRED programs	$558,000	—[a]	$558,000	—
Counties that do not currently operate FRED programs	7,706,000	−$68,651,000	−$60,945,000	8.9 to 1[a]
Totals	$8,264,000	−$68,651,000	−$60,387,000	8.3 to 1

[a] The General Fund benefit-to-cost ratio displayed here is one-half of the benefit-to-cost ratio displayed in Table 7. This is because, under this option, the General Fund would support 50 percent of program costs, instead of the 25 percent share currently paid in the counties listed in Table 7.

The table shows that mandating FRED on counties in which it would be cost-effective to do so could result in a substantial savings to the state. Given the track record of the FRED program in preventing fraud while protecting client rights, we see no reason why the program should not be mandated in counties where the DSS believes it would be cost-effective. Therefore, we recommend that the Legislature adopt the following Budget Bill language, directing the department to (1) assess the potential costs and savings of the FRED program in counties that currently do not operate the program and (2) report to the Legislature by December 1, 1986, on the potential costs and savings in 1987–88 and future years, of requiring counties to implement the FRED program where it would be cost-effective to the state:

"The DSS shall assess the potential costs and savings that would result from implementation of FRED programs in counties that do not currently operate such programs. The DSS shall, by December 1, 1986, submit a report to the Legislature providing its detailed estimates of these costs, on a county-by-county basis, for 1987–88 and subsequent years. In preparing its report, the department shall consider the estimating methodology used in preparing federal report #18-P-00241-9-01. The department's report shall also provide an estimate of the increased costs to the state that would result from mandating the FRED program on counties that currently operate it on a voluntary basis."

TECHNICAL BUDGETING ISSUES

Savings From Asset Clearance Match Underbudgeted

We recommend a reduction of $4,337,000 ($1,931,000 General Fund, $2,173,000 federal funds, and $233,000 county funds) to reflect a more accurate estimate of the savings that will result from the asset clearance match program in 1986–87.

The budget anticipates that the asset clearance match program will result in savings of $8,674,000 ($3,861,000 General Fund, $4,346,000 federal funds, and $467,000 county funds) in 1986–87. This program identifies welfare recipients who have bank accounts that accrue interest of more than $30 a year. Once these recipients are identified, county welfare departments determine whether the recipients have correctly reported these assets to their caseworkers. If these assets have resulted in the recipient receiving more money than he or she was entitled to receive, the county welfare department attempts to recoup the overpayment.

The department's estimate of the savings that will be generated by the asset clearance match in 1986–87 assumes that each investigator can complete 16 cases per month. Based on data provided by the department, we estimate that investigators currently process 24 cases per month. The 16 cases per month figure used by the department corresponds to the *unweighted average* number of cases per investigator in large, medium, small, and very small counties. Our estimate of 24 cases per month reflects the *weighted average* for these four groups.

If the department's estimate is adjusted to reflect the weighted average number of cases per investigator, the savings estimate increases by 50 percent. Specifically, we estimate that the asset clearance match program will generate savings of $13,012,000 ($5,792,000 General Fund, $6,519,000

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federal funds, and $701,000 county funds). We therefore recommend a reduction of $4,337,000 ($1,931,000 General Fund, $2,173,000 federal funds, and $233,000 county funds) to reflect a more accurate estimate of the increased savings that will result from the asset clearance match in 1986–87.

Savings From The Integrated Earnings Clearance Program Are Underbudgeted

We recommend a reduction of $3,243,000 ($1,436,000 General Fund, $1,633,000 federal funds, and $174,000 county funds) to reflect a more accurate estimate of the AFDC grant savings that can be expected to result from the Integrated Earnings Clearance program in 1986–87.

The budget anticipates savings to the AFDC program of $1,321,000 ($585,000 General Fund, $665,000 federal funds, and $71,000 county funds) due to increased activity in the Integrated Earnings Clearance (IEC) program. The IEC program is a welfare fraud detection program which identifies recipients who have income that they do not report to their caseworkers. The program identifies these individuals by matching welfare records against the records of other governmental agencies such as the Franchise Tax Board, the Social Security Administration, and the Internal Revenue Service. These records are matched once every quarter.

The department's estimate of the savings that will result from the IEC program in 1986–87 is based, in part, on the assumption that 80 percent of the individuals who are identified by the program as having failed to report income in each quarter were also identified by the program in the previous quarter. Based on data provided by the department, we estimate that only 30 percent of the individuals identified each quarter have been previously identified. If the department's estimate is adjusted using the 30 percent estimate, savings from the program grow by $3,243,000 ($1,436,000 General Fund, $1,633,000 federal funds, and $174,000 county funds). Therefore, we recommend a reduction of $3,243,000 ($1,436,000 General Fund, $1,633,000 federal funds, and $174,000 county funds) to reflect a more accurate estimate of the AFDC grant savings that can be expected to result from the IEC program in 1986–87.

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 152

Requested 1986–87	$1,591,370,000 [a]
Estimated 1985–86	1,410,536,000
Actual 1984–85	1,248,571,000
Requested increase $180,834,000 (+12.8 percent)	
Total recommended reduction	None

[a] This amount includes $104,732,000 proposed in Item 5180-181-001(a) for cost-of-living increases.

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-111-001—Payments to aged, blind, and disabled	General	$1,486,638,000
5180-111-890—Payments to aged, blind, and disabled	Federal	(8,043,000)
5180-181-001(a)—Payments to aged, blind, and disabled COLA	General	104,732,000
5180-181-890—Payments to aged, blind, and disabled COLA, refugees	Federal	(226,000)
Total		$1,591,370,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Caseload Estimates. Recommend that the Department of Finance reconcile the discrepancy between the aged caseload estimates of the Departments of Social Services and Health Services. 942
2. Continuing Disability Reviews. Recommend that the Legislature adopt supplemental report language directing the department to reconcile any discrepancy between its estimate of savings due to the resumption of continuing disability reviews (CDRs), and the savings actually realized as a result of implementing the new CDR regulations. 943
3. State Monitoring of Federal Administration. Recommend that the Legislature adopt supplemental report language directing the department to outline its plan for monitoring the quality of federal administration of the Supplemental Security Income/State Supplementary Program. 945

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

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

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 679,896 persons will receive assistance each month under this program.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $1,591,370,000 from the General Fund for the state's share of the SSI/SSP program in 1986–87. This is an increase of $180,834,000, or 13 percent, above estimated expenditures in the current year. The budget also assumes that federal expenditures for the SSI/SSP program will be $1,322,109,000. This is an increase of $72,941,000, or 5.8 percent, above estimated federal expenditures in the current year. The budget estimates that combined state and federal expenditures for the SSI/SSP program in 1986–87 will be $2,913,479,000, which is an increase of $253,775,000, or 9.5 percent, above estimated current-year expenditures.

Table 1 shows SSI/SSP expenditures, by category of recipient and by funding source, for the years 1984–85 through 1986–87.

Table 1
SSI/SSP
Expenditures 1984–85 through 1986–87
(dollars in thousands)

Category of Recipient	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*[a]	*Percent Change From 1985–86*
Aged	$751,845	$841,613	$920,020	9.3%
Blind	80,174	90,353	98,812	9.4
Disabled	1,549,426	1,727,738	1,894,647	9.7
Totals	$2,381,445	$2,659,704	$2,913,479	9.5%
Funding Source				
General Fund	*$1,248,571*	*$1,410,536*	*$1,591,370*	*12.8%*
Federal funds[b]	*1,132,874*	*1,249,168*	*1,322,109*	*5.8%*

[a] Includes 4.9 percent COLA.
[b] Includes federal funds to support SSP costs for refugees.

Table 2 shows the budget adjustments that account for the increase in SSI/SSP expenditures proposed for 1986–87. The increase in General Fund costs can be attributed to the following significant changes proposed for the budget year:

- A $104.7 million increase needed to provide a 4.9 percent cost-of-living adjustment (COLA) for grants, beginning January 1, 1987.
- A $74.8 million increase which reflects the effect of (1) the full-year cost in 1986–87 of the 5.7 percent COLA provided for SSI/SSP grants on January 1, 1986, and (2) the increase in recipient's unearned income (as a result of the 3.1 percent COLA provided for social security benefits on January 1, 1986).
- A $33.9 million decrease made possible by increased federal funds that

are expected to be available for a COLA to SSI grants, beginning January 1, 1987.

- A $45.3 million increase needed to fund an estimated 2.7 percent increase in caseload.
- A $15.5 million decrease reflecting an anticipated increase in recipient's unearned income (primarily as a result of the estimated 3.5 percent COLA provided for social security benefits on January 1, 1987), which reduces grant costs.
- A $14 million increase due to the cost of errors made by the federal government in administering the SSI/SSP program in 1985–86 which the federal government will no longer finance.

Table 2
SSI/SSP
Proposed Budget Changes
1986–87
(dollars in thousands)

	General Fund	*Federal Funds*[a]	*Total*[a]
1985–86 expenditures (revised)	$1,410,536	$1,249,168	$2,659,704
Proposed changes:			
1. Basic caseload increases	45,281	48,531	93,812
2. Cost-of-living adjustments			
a. Proposed 4.9 percent grant increase (1/87)	104,732	226	104,958
b. Full-year cost of 1/86 grant increase	74,815	22,405	97,220
c. Estimated federal SSI increase (1/87)	−33,943	32,949	994
d. Estimated social security benefit increase (1/87)	−15,480	−9,630	−25,110
Subtotals	($175,405)	($94,481)	($271,874)
3. Program adjustments			
a. Decreased federal reimbursement for errors	$14,000	−$14,000	$0
b. Resumption of disability reviews	−7,400	−7,900	−15,300
c. $10 state supplement (Ch 1161/85)	1,167	0	1,167
d. Court cases	−1,852	−126	−1,978
e. All others	−486	487	0
Subtotals	($5,429)	(−$21,539)	(−$16,111)
1986–87 expenditures (proposed)	$1,591,370	$1,322,109	$2,913,479
Change from 1985–86:			
Amount	$180,834	$72,941	$253,775
Percent	12.8%	5.8%	9.5%

[a] Includes federal funds of $7,557,000 in 1985–86 and $8,043,000 in 1986–87 to support SSP costs for refugees.

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.

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.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

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 no better than 20/200; limited visual field of 20 degrees or less with the best corrective eyeglasses.
3. Disabled	a. A physical or mental impairment which precludes "substantial gainful employment" and is expected to last at least 12 months or result in death.
B. Income and Resource Limits	
Type	*Limit*
1. Home	Entire value exempt.
2. Personal and real property	$1,700 for individual, $2,550 for couple.
3. Household goods/personal effects	$2,000 equity value.
4. Life insurance policies	$1,500 face value.
5. Burial plots or spaces	$1,500 per person.
6. Motor vehicle	Total exclusion, or exclusion to $4,500 of market value. 2nd automobile—no exclusion.
7. General income exclusion	$20/month general exclusion.
8. Earned income exclusion	
a. All categories	a. First $65/month of earned income plus one-half of remaining earned income.
b. Blind and disabled	a. Any income used toward gaining self-sufficiency.
9. Income limit	Maximum SSI/SSP grant. (see Table 5).

The Deficit Reduction Act of 1984 (DEFRA) increased the limit on personal and real property that an SSI/SSP recipient may own and still retain eligibility for benefits. The limit will increase by $100 for individuals and $150 for couples for each year for five years, beginning January 1, 1985. Thus, as a result of this provision, the resource limits will increase to $2,000 and $3,000, respectively, by 1989. Otherwise, the eligibility requirements for the SSI/SSP program are essentially unchanged from last year.

Status of the Current-Year Budget

The department's latest estimate of General Fund costs for the SSI/SSP program in 1985–86 is $1,410,536,000. This is $20,213,000, or 1.5 percent, above the amount appropriated in the 1985 Budget Act. The major factors that account for the increase are as follows:

- Costs have increased by $6.9 million because the amount provided by the federal government to reimburse the state for errors it made in administering the SSI/SSP program was less than expected.
- Costs have increased by $6 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 3.5 percent for both the SSI grant and social security benefits; the actual increase on January 1, 1986, was 3.1 percent.
- Costs have increased by $4.4 million because the moratorium on disability reviews was extended from March 1985 through January 1986.
- Costs have increased by $4.2 million due to a 0.5 percent increase in caseload.

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 1986 an aged or disabled individual can receive up to $533 per month, while a blind individual can receive up to $597. 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 4 shows the maximum grant levels for the major recipient categories in 1985 and 1986, as well as what the grant levels will be in 1987 if the 4.9 percent increase proposed in the budget is approved.

Table 4
SSI/SSP
Maximum Monthly Grant Levels
Calendar Years
1985 through 1987

Category of Recipient	*1985*	*1986*	*Governor's Budget[a] 1987*	*Change From 1986 to 1987 Amount*	*Change From 1986 to 1987 Percent*
Aged or disabled:					
Individual:					
Total grant	504	533	559	26	4.9%
SSI	325	336	347	11	3.3
SSP	179	197	212	15	7.6
Couple:					
Total grant	936	989	1,037	48	4.9
SSI	488	504	521	17	3.4
SSP	448	485	516	31	6.4
Blind:					
Individual:					
Total grant	565	597	626	29	4.9
SSI	325	336	347	11	3.3
SSP	240	261	279	18	6.9
Couple:					
Total grant	1,099	1,162	1,219	57	4.9
SSI	488	505	521	16	3.2
SSP	611	657	698	41	6.2

[a] Assumes a 3.5 percent increase in SSI grants, effective January 1, 1987.

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 4 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, 1987, based on the change in the California Necessities Index (CNI) during calendar year 1985. The Commission on State Finance is required to calculate the CNI and will announce the actual change in the CNI for calendar year 1985

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

during March 1986. The commission's calculation, therefore, will be available for use in calculating the *actual* grant adjustments required by current law, 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 1985, the budget proposes a 4.9 percent increase in the maximum grants at a cost of $104,732,000 to the General Fund. Table 4 shows the effect of a 4.9 percent increase to the grant levels for various recipient categories.

Caseload Estimates Need to be Reconciled

We recommend that the Department of Finance (1) reconcile the discrepancy between the aged caseload estimates of the Departments of Health Services (DHS) and Social Services (DSS) and (2) report to the fiscal committees, prior to budget hearings, regarding any changes that are warranted in the amounts proposed under this item and under the Medi-Cal program item (Item 4260-101-001).

The budget proposes General Fund expenditures of $1,403 million to fund the SSI/SSP caseload in 1986–87. This is an increase of $45.3 million, or 3.3 percent, above estimated current-year expenditures and is due to caseload growth. The department estimates that the total SSI/SSP caseload will grow by 2.7 percent between 1985–86 and 1986–87, as shown in Table 5. The SSI/SSP caseload is comprised of aged, disabled, and blind recipients. The aged population is 39 percent of the total caseload, and the department estimates that the aged caseload will grow by 1.8 percent between the current year and 1986–87.

For the most part, the aged caseloads for the Medi-Cal program (excluding the medically needy only), and for SSI/SSP consist of the same individuals. It is not possible, therefore, for one caseload to increase at the same time that the other is decreasing. Despite this fact, DSS and DHS have developed conflicting estimates of the aged SSI/SSP caseload for 1986–87. While DSS projects that this caseload will increase by 1.8 percent between the current and budget years, DHS projects that the aged population receiving medical assistance will *decrease* by 1.2 percent during this period. Thus, the caseload projections of DSS and DHS are inconsistent with one another. It is difficult to understand how a difference of this magnitude—3 percentage points—could have occurred in a budget that, presumably, was carefully reviewed by both the Health and Welfare Agency and the Department of Finance.

Table 5
SSI/SSP
Average Monthly Caseload
1984–85 through 1986–87

Eligibility Category	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
Aged	264,283	266,646	271,500	1.8%
Blind	18,804	19,446	20,067	3.2
Disabled	379,800	393,804	406,542	3.2
Totals	662,887	679,896	698,109	2.7% [a]

[a] The Department of Health Services projects a 1.2 percent *decrease* in the aged population receiving Medi-Cal between 1985–86 and 1986–87.

We are concerned about this inconsistency because it casts doubt on the validity of the administration's estimate of the costs of both the SSI/SSP program and the Medi-Cal program. To the extent that there are more aged SSI/SSP recipients in the Medi-Cal program than is reflected in the DHS caseload estimate, the cost of the Medi-Cal program will be more than the amount currently budgeted in the Medi-Cal item (4260-101-001).

We have no basis for determining which department's estimate of caseload is most reasonable. Consequently we cannot advise the Legislature whether the amount of funds proposed to fund the caseload increase in the SSI/SSP program is correct. We can only note that the budget asks the Legislature to appropriate money for two major budget items based on *two contradictory estimates of the same caseload.* We therefore recommend that the Department of Finance reconcile this discrepancy between the two department's caseload estimates and advise the fiscal committees, prior to budget hearings, of any changes that are warranted in (1) the amounts proposed under this item for the SSI/SSP program and (2) the amounts proposed for the Medi-Cal program (Item 4260-101-001).

Savings Estimate from Continuing Disability Reviews May Be Overstated

We recommend that the Legislature adopt supplemental report language which requires the Department of Social Services (DSS) to submit a report by December 1, 1986, that reconciles its estimate of savings due to the resumption of continuing disability reviews (CDRs) with the savings actually realized.

In 1980, Congress enacted amendments to the social security Act (P.L. 96-265) which expanded the requirement for periodic reviews of both disabled social security and SSI/SSP recipients, in order to determine their continued eligibility for benefits (referred to as "Continuing Disability Reviews" (CDRs). These reviews resulted in thousands of appeals to the federal courts by individuals whose grants were reduced or terminated, threats by federal courts to serve contempt of court citations on the Secretary of Health and Human Services (HHS) for refusing to pay benefits when ordered, and the decision of several states not to follow federal CDR regulations. As a result, on April 1, 1984, the Secretary of HHS imposed a moratorium on the CDR process, pending further legislative action. Congress established new standards for disability reviews in the Social Security Disability Benefits Reform Act of 1984 (P.L.98-460). Based on this legislation, HHS prepared new CDR regulations which became effective December 6, 1985.

The most significant change in the regulations brought about by P.L.98-460 was the addition of a "medical improvement standard." Under the *old* regulations a recipient could be terminated from aid even though his/her *physical or mental condition* was unchanged. Under the *new* regulations a recipient can only be terminated from aid based on proof of improvement in his/her medical condition. In addition, the new regulations make other changes such as requiring more extensive documentation of recipients' medical condition.

The department estimates that resumption of the CDRs will result in savings to the General Fund because these reviews will identify some current SSI/SSP recipients as ineligible for assistance. The department estimates that the General Fund savings from discontinuing benefits to these persons will total $700,000 in 1985–86, and $8.1 million in 1986–87.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

We have reviewed the basis for the department's estimate, and we have identified a number of factors which could cause the savings from CDRs to be either higher or lower than what the budget anticipates. Specifically, we find that:

- ***The SSI/SSP cases which are determined to be ineligible for aid will not be discontinued from assistance immediately, thereby reducing the estimate of savings.*** The department assumes that savings will start to accrue on March 1, 1986, as an average of 360 recipients per month are terminated from aid. This estimate fails to consider that recipients will receive two additional months of benefits following the receipt of a termination notice. Therefore, in the current year, costs will continue to occur for two months beyond the month that an individual receives a notice of termination. We estimate that this will reduce the current-year savings by $474,000. *If the department is unable to make up for this loss by processing additional cases in 1986–87, savings for the budget year will be $914,000 lower than estimated by the department.* (This is because savings for 1986–87 are cumulative, based on savings in the current year.)
- ***The department's estimate fails to take into account appeals by individuals who have been notified that they are no longer eligible for aid.*** Individuals who appeal a termination notice can continue to receive benefits during the appeals process, thereby reducing the savings still further.While it is difficult to estimate the number of appeals, it is important to note that prior to the moratorium on CDRs, there was a very high rate of successful appeals. In general, the appeals process takes approximately two-to-eight months to complete. If the appeal results in a reversal of the termination, the recipient will continue to receive benefits until the next review of his/her case.
- ***There is some uncertainty as to how many individuals will be found ineligible for aid under the new "medical improvement" standard.*** The department estimates that an average of 20 percent of the cases reviewed will be terminated from aid. The SSA indicates, however, that between 17 percent and 21 percent of cases reviewed will be dropped from aid. The department based its estimate on its experience in performing CDRs prior to the moratorium. During this period, the department was determining eligibility based on a decision in a court case which imposed a standard similar to the new "medical improvement" standard. The new regulations, however, are more detailed than the court standard, and include other changes in addition to the "medical improvement" standard. *If the department terminates from aid fewer than 20 percent of those subject to the CDRs, savings will be lower than projected. On the other hand, if more than 20 percent of the cases are terminated from aid, the savings will be higher than estimated.*
- ***The number of cases which will be reviewed in the current year probably will be lower than the number estimated in the budget, thereby reducing the savings in the current year.*** This is primarily because the department will not hire the staff necessary to perform the CDRs until February, but it assumes that the full workload of CDRs will be performed beginning March 1, 1986. Although the department is requiring experienced staff to work overtime to help with

the reviews, it is unlikely that the department will be able to handle the projected workload immediately because (1) the new staff requires one year of training and work experience before becoming fully productive and (2) the overtime may be insufficient to cover both the incoming CDRs and the regular workload. *If the department processes fewer cases than it estimates, then the savings will be lower than it projects.*

Because of these uncertainties it is difficult to assess the accuracy of the department's savings estimate. Accordingly, we recommend that the Legislature adopt supplemental report language requiring the department to submit a report to the Legislature by December 1, 1986, that reconciles its estimate of savings due to the resumption of CDRs with actual savings achieved.

The following language is consistent with this recommendation:

"The Department of Social Services shall submit a report by December 1, 1986, that reconciles its estimate of savings due to the resumption of CDRs with its actual experience in implementing the new CDR regulations."

State Monitoring of Federal Administration

We recommend that the Legislature adopt supplemental report language requiring the department to (1) review the findings of the State Controller's audit of the SSI/SSP program and (2) submit a report by September 1, 1986, that outlines the state's contract proposal regarding the federal quality assurance system.

The Social Security Administration (SSA) administers the SSI/SSP program in California pursuant to a contract between the federal and state government. Under the provisions of the contract, the federal government is responsible for a number of activities, one of which is monitoring the accuracy with which *it* administers the program. The federal government monitors its administration of the program based on quality assurance (QA) reviews.

The state relies primarily on the findings from the federal QA system in order to monitor federal administration of the program. In addition, the state performs audits to monitor federal administration of the program. The contract between the state and federal government specifies the conditions under which these audits are performed and describes the federal QA system.

The department currently is negotiating a new contract with the SSA. The department indicates that it has two major concerns with the new contract proposed by SSA. The proposed contract:

- Deletes a description of the federal QA system.
- Limits the effectiveness of state audits.

Federal QA System Changes. Prior to 1985–86, as part of its QA system, the federal government reviewed a sample of SSI/SSP cases in order to identify erroneous payments to recipients. Subsequent to this review, the state examined a portion of the federal sample to test the accuracy of the federal review. The findings from these two reviews were combined to produce an error rate. The error rate was the basis for reimbursing the state for erroneous payments made by SSA to SSI/SSP recipients.

On October 1, 1984, however, the SSA eliminated federal reimbursement for erroneous payments. As a result, the state eliminated the staff which had reviewed the federal sample. The department explained that

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

since the federal government was no longer going to reimburse states for erroneous payments, the state would have limited ability to influence the quality of the QA reviews. It indicated, however, that the risk of inaccurate QA reviews and misspent program funds could increase.

The state relies primarily on the federal QA system to monitor federal program administration. The department informs us that the contract proposed by the federal government does not describe the QA system. As a result, the department does not know what type of system SSA is planning to operate in the future. Because the description of the QA system was left out of the new contract proposal, several states, including California, New York, Michigan, and Nevada, have refused to sign the contract.

The department plans to propose that the contract include a description of the QA system that will protect the state's interest in accurate program administration. The department, however, has not yet decided what kind of QA system it will propose to the federal government.

State Audits of Federal Administration. In addition to the federal QA system, the state continues to periodically audit federal administration of the program. In 1983, the Department of Finance (DOF), and the State Controller's office performed the last major state audit of the program. As a result of that audit, DOF estimated that SSA owed the state approximately $30 million due to erroneous payments to recipients. In addition, the state recommended that SSA correct several administrative deficiencies.

The SSA agreed with most of the state's recommendations, but it did not agree that it owed the state $30 million. Currently, the SSA is reviewing the state's claim.

Neither the old contract, nor the proposed contract provide a definite time period for resolution of claims identified in state audits. The department informs us that it intends to propose a one-year period for resolution of these claims. In addition, the new contract deletes the provision that state audit results may be used by the state to recommend improvements in the federal government's QA process. This effectively eliminates state oversite of the federal QA process.

State Controller's Report. A planned State Controller's audit report will provide the department with some of the information it needs in order to develop a contract proposal which protects the state's interest in accurate federal administration of this program. The State Controller's office advises us that the three-part audit will:

- Review SSA's current QA system and SSA's plans to modify it,
- Review SSA's procedures for verifying the $30 million identified in the 1983 audit and follow-up on other recommendations made in the 1983 audit and
- Review regional and district offices' administration of the program in 1981–82, 1982–83, and 1983–84.

The State Controller's office informs us that it will complete the first two parts of the audit by July 1986, and the third part later in 1986–87. The first two parts of the audit report will identify weaknesses in both the current QA system, and any planned changes. The department can use that information to develop a contract proposal for a more effective QA system. If the state's proposal succeeds, it will allow the state to:

- Identify administrative errors as a result of both the QA system and state audits, and
- Require the federal government to reimburse the state for some of those errors.

Accordingly, we recommend that the Legislature adopt supplemental language requiring the department to (1) review the findings of the State Controller's audit report on the SSI/SSP and (2) submit a report by September 1, 1986, that outlines the state's contract proposal regarding the federal QA system.

The following language is consistent with this recommendation:

"The Department of Social Services shall (1) review the findings of the State Controller's audit report of the SSI/SSP and (2) submit a report by September 1, 1986, that provides the state's proposal for the contract with the federal government regarding the federal quality assurance system."

Department of Social Services
SPECIAL ADULT PROGRAMS

Item 5180-121 from the General Fund and the Federal Trust Fund — Budget p. HW 153

Requested 1986–87	$2,018,000
Estimated 1985–86	1,822,000
Actual 1984–85	1,657,000
Requested increase $196,000 (+10.8 percent)	
Total recommended reduction	None

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-121-001—Special Adult Programs	General	$2,018,000
5180-121-890—Special Adult Programs	Federal	(75,000)

GENERAL PROGRAM STATEMENT

The Special Adult programs consist 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.

SPECIAL ADULT PROGRAMS—Continued

OVERVIEW OF THE BUDGET REQUEST

The budget proposes a General Fund appropriation of $2,018,000 for the Special Adult programs in 1986–87. This is $196,000, or 11 percent, more than estimated General Fund expenditures for this program in the current year. This increase results primarily from projected caseload growth in the Special Circumstances program. The Department of Social Services (DSS) anticipates that the caseload for the Special Circumstances program will increase because the potential applicant pool—SSI/SSP recipients—is growing at an accelerating rate.

The budget also proposes $75,000 in federal funds to provide cash assistance to repatriated Americans. This is the same amount that will be spent in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The 1985 Budget Act required DSS to limit state reimbursement for an individual county's administrative costs under the Special Circumstances program to 100 percent of the county's total benefit expenditures, or actual administrative costs, whichever was less. The department estimates that total administrative costs for this program in 1986–87 will not exceed 100 percent of benefit expenditures. Furthermore, the department indicates that it will restrict each county's administrative costs to 100 percent of benefit expenditures.

Department of Social Services
REFUGEE CASH ASSISTANCE PROGRAMS

Item 5180-131 from the Federal Trust Fund — Budget p. HW 155

Requested 1986–87	$57,857,000 [a]
Estimated 1985–86	55,989,000
Actual 1984–85	52,783,000
Requested increase $1,868,000 (+3.3 percent)	
Total recommended reduction	None

[a] Includes $1,553,000 proposed in Item 5180-181-890 for a 4.9 percent cost-of-living increase.

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-131-866—Refugee programs, local assistance	Federal	$56,304,000
5180-181-866(c)—Refugee programs, local assistance	Federal	1,553,000
Total		$57,857,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Refugee Caseload Estimates. Recommend that prior to budget hearings the Department of Finance reconcile the conflict in caseload estimates and advise the Legislature of any changes that are warranted in the funds proposed. 949

GENERAL PROGRAM STATEMENT

This item appropriates the federal funds that pay for the costs of cash grants and medical assistance provided to refugees who are eligible for assistance and who have been in this country for less than 36 months. These individuals are referred to as "time-eligible" refugees. 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 Program (SSI/SSP), Medi-Cal, and county general assistance programs.

ANALYSIS AND RECOMMENDATIONS

Refugee Caseload Estimates

We recommend that the Department of Finance (1) reconcile the discrepancy between the refugee caseload estimates of the Departments of Health Services (DHS) and Social Services (DSS) and (2) report to the fiscal committees prior to budget hearings any changes that are warranted in the amounts proposed under this item and under the Medi-Cal program item (Item 4260-101-001).

The budget proposes expenditures of $57,857,000 in federal funds for cash and medical assistance provided through Refugee Cash Assistance programs to refugees and entrants in 1986–87. This is an increase of $1,868,000, or 3 percent, above estimated current-year expenditures for this program.

The $1,868,000 increase reflects three principal changes: (1) a $1,553,000 increase proposed in Item 5180-181-866 for a 4.9 percent cost-of-living adjustment to cash grant amounts provided to refugees, (2) an $825,000 increase to cover the costs of a *2.7 percent increase in caseload projected by the DSS* for its cash assistance program, and (3) a reduction of $510,000 in the projected costs of providing medical services to refugees that is primarily due to a *3.6 percent reduction in caseload projected by the DHS.*

For the most part, the same individuals make up the caseloads for refugee cash assistance and medical assistance. It is not possible, therefore, for one program's caseload to increase while the caseload for the other is decreasing. Thus, the DSS's and DHS's caseload projections are inconsistent with one another. It is difficult to understand how a difference of this magnitude—6.3 percentage points—could have occurred in a budget that, presumably, was carefully reviewed by both the Health and Welfare Agency and the Department of Finance.

Not only does this inconsistency cast doubt on the administration's expenditure estimate for *this* item; it also brings into question the administration's estimate of General Fund costs under the Medi-Cal program. This is because the General Fund cost estimates for the Medi-Cal program depend, in part, on the amount of federal funds available to reimburse the DHS for medical assistance provided to *time-eligible* refugees. To the

REFUGEE CASH ASSISTANCE PROGRAMS—Continued

extent that the number of time-eligible refugees turns out to be more in line with DSS's caseload projections, the amount of federal funds available to offset the General Fund costs of Medi-Cal services for refugees will exceed the amount budgeted in this item. If this happens, the amount needed from the General Fund to pay costs under the Medi-Cal program will be less than the amount proposed in the Medi-Cal item (Item 4260-101-001).

We have no basis for determining which department's estimate of caseload is the most reasonable. Consequently, we cannot advise the Legislature whether the amount of federal funds proposed for refugee cash and medical assistance under this item is correct. We can only note that the budget asks the Legislature to appropriate money for two major budget items based on *two contradictory estimates of the same caseload.* We therefore recommend that the Department of Finance reconcile the discrepancy between the two department's caseload estimates and advise the fiscal committees, prior to budget hearings, of any changes that are warranted in (1) the amounts proposed under this item for refugee cash and medical assistance and (2) the amount needed from the General Fund for the Medi-Cal program item (Item 4260-101-001).

Department of Social Services

COUNTY ADMINISTRATION OF WELFARE PROGRAMS

Item 5180-141 from the General Fund and Federal Trust Fund — Budget p. HW 154

Requested 1986–87	$133,848,000
Estimated 1985–86	129,181,000
Actual 1984–85	122,627,000
Requested increase $4,667,000 (+3.6 percent)	
Total recommended reduction	None
Recommendation pending	999,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-141-001—County Administration	General	$133,848,000
5180-141-890—County Administration	Federal	(394,294,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Productivity Targets. Recommend that the Legislature adopt Budget Bill language requiring the Departments of Social Services (DSS) and Health Services, in conjunction with the County Welfare Director's Association, to establish productivity standards for the AFDC, Food Stamps' and Medi-Cal programs based on a "model" county methodology. 955

2. Overpayment Collections Report. Recommend that the Legislature adopt Budget Bill language allocating $122,000 from the General Fund to counties to cover their costs of preparing an overpayment collection report, only after the Director of Finance has certified that the DSS has taken appropriate action to ensure that the counties will report accurately and on a timely basis. 958
3. Statewide Automated Welfare System (SAWS). Withhold recommendation on $2,244,000 ($999,000 General Fund and $1,245,000 federal funds) proposed for the SAWS project, pending receipt of the annual SAWS progress report. 959

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 for aged, blind, and disabled recipients. It also funds costs of training county eligibility and nonservice staff. In addition, this item identifies the federal and county costs of administering child support enforcement and cash assistance programs for refugees.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $133,848,000 from the General Fund as the state's share of the costs that counties will incur in administering welfare programs during 1986–87. This is an increase of $4,667,000, or 3.6 percent, over estimated current-year General Fund expenditures for this purpose. The $133.8 million includes $6,106,000 to fund the increased General Fund costs resulting from the estimated 4.8 percent cost-of-living adjustment (COLA) granted by the counties to their employees during *1985–86.* In accordance with the policy established by the Legislature in recent budget acts, during 1986–87 counties will pay for any COLAs that they grant their employees in the budget year using county and federal funds. The state will fund its share of these costs starting in 1987–88.

The budget proposes total expenditures of $714,059,000 for county administration of welfare programs during 1986–87, as shown in Table 1. This is an increase of $28,226,000, or 4 percent, over estimated current-year expenditures.

Proposed General Fund Changes

Table 2 displays the adjustments to General Fund expenditures for county administration proposed for 1986–87. The net increase of $4,667,000, in large part, reflects the $6,106,000 needed to fund the estimated 4.8 percent retroactive COLA, partially offset by the elimination of one-time administrative costs in 1985–86 associated with a variety of court cases ($2,523,000).

Table 1
Expenditures for County Welfare Department Administration
1984–85 through 1986–87
(in thousands)

	Actual 1984–85				*Estimated 1985–86*				*Proposed 1986–87*			
Program	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
AFDC administration	$95,536	$207,823	$108,786	$412,145	$99,942	$212,968	$109,418	$422,328	$102,807	$224,372	$114,749	$441,928
Nonassistance Food Stamps	23,257	57,098	27,329	107,684	25,012	60,837	27,859	113,708	26,854	66,982	29,617	123,453
Child Support Enforcement	—	92,119	30,723	122,842	—	92,542	39,661	132,203	—	92,542	39,661	132,203
a. Welfare	—	(68,703)	(22,917)	(91,620)	—	(68,696)	(29,442)	(98,138)	—	(68,696)	(29,442)	(98,138)
b. Nonwelfare	—	(23,416)	(7,806)	(32,222)	—	(23,846)	(10,219)	(34,065)	—	(23,846)	(10,219)	(34,065)
Special Adult programs	2,295	—	52	2,347	2,494	—	60	2,554	2,555	—	109	2,664
Refugee cash assistance	—	5,774	—	5,774	—	7,028	—	7,028	—	6,850	—	6,850
Staff development	1,524	3,333	1,738	6,595	1,611	3,538	1,781	6,930	1,611	3,538	1,781	1,781
Adoption assistance	15	7	—	22	22	10	—	32	21	10	—	31
Subtotals	$122,627	$366,154	$168,628	$657,409	$129,081	$376,923	$178,779	$684,783	$133,848	$394,294	$185,917	$714,059
Local mandates	(291)	—	(−291)	—	(291)	—	(−291)	—	—	—	—	—
Employment programs [a]	—	—	—	—	100	900	—	1,000	—	—	—	—
Totals	$122,627	$366,154	$168,628	$657,409	$129,181	$377,823	$178,779	$685,783	$133,848	$394,294	$185,917	$714,059

[a] Funds to support employment programs in 1986–87 are budgeted under Items 5180-151-001 and 5180-151-890, social services programs.

Table 2
County Administration of Welfare Programs
General Fund Changes Proposed for 1986–87
(dollars in thousands)

	Cost	Total
1985–86 Expenditures (Revised)		$129,181
A. Adjustments to Ongoing Costs		
1. AFDC Administration		
a. Basic Costs	$668	
b. Court Cases	−2,523	
c. Fraud Detection Savings	−186	
d. Employment Programs Transfer	−201	
e. Other	75	
Subtotal		−$2,167
2. Nonassistance Food Stamps		
a. Basic Costs	56	
b. Other	−33	
Subtotal		$23
3. Other Programs		−$40
B. New Costs		
1. SAWS		
a. AFDC	169	
b. Nonassistance Food Stamps	576	
Subtotal		$745
2. Retroactive COLA (4.8%) [a]		
a. AFDC	4,863	
b. Nonassistance Food Stamps	1,243	
Subtotal		$6,106
1986–87 Expenditures (Proposed)		$133,848
Change from 1985–86:		
Amount		$4,667
Percent		3.6%

[a] This reflects the 1986–87 General Fund costs of the estimated 4.8 percent cost-of-living increase granted by counties to their employees in 1985–86.

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 requires counties to meet the average of the productivity standards achieved by counties having a similar caseload 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.

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

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.

Current Productivity Targets

The cost control plan specifies productivity targets that provide a basis for limiting allocations to counties. Currently, the base years used to set these targets are 1980–81 for AFDC administration and 1979–80 for Food Stamp administration.

Proposed Evaluation of Cost Control System

The 1985 Budget Act required the DSS and the Department of Health Services (DHS) to submit to the Chairman of the Joint Legislative Budget Committee (JLBC), by October 1, 1985, a plan for conducting a study of the eligibility determination process under the AFDC, Food Stamps, and Medi-Cal programs. The Budget Act specified that the study should be designed to determine the appropriate productivity targets for these programs. It also prohibited the DSS from changing the productivity targets for the AFDC and Food Stamps programs until the study is completed. The Budget Act, however, *required* the DHS to update the base year used to set Medi-Cal productivity targets for 1986–87. (We discuss the Medi-Cal target update in our analysis of Item 4260-106-001).

The departments submitted their study plan to the JLBC in January 1986. The plan calls for reviewing three aspects of the current cost control plan over a period of at least two to three years. Specifically, the plan sets out the following schedule for the study.

Alternative Approaches to Grouping Counties According to Caseload Size. Under the proposed plan, the two departments and the County Welfare Director's Association would review the current method used to group counties based on caseload size and set average productivity targets for each group. Currently, the counties are grouped into four categories based on caseload size for the purposes of setting productivity targets. The proposed study would consider such alternatives as groupings based on level of automation and geography. The department believes it can complete this portion of the study during 1986–87, using available resources.

Alternative Approaches to Budgeting Support Costs. This part of the study would consider changes to the way the department budgets for support ("overhead") costs. Currently, DSS reviews, on a case-by-case basis, county requests to increase their total support costs. Overhead costs are allocated to each program based on the ratio of each program's line-worker costs to total line-worker costs within the welfare department. The proposed study would consider such alternatives as using targets for counties' support-to-line staff ratios and direct billing of some support costs. The department believes it can complete this portion of the study during 1986–87, using available resources.

Evaluation of Current Productivity Targets. The two departments propose a two-step approach to evaluating the productivity targets. The first step would be to contract with an independent contractor, to provide (1) a list of the methodologies that could be used to evaluate the targets and (2) the costs, benefits, and time frames associated with each methodology. The second step would be to select one of the methodologies identified in the preliminary study and to conduct the actual productivity target study. The departments advise that the contract for the preliminary study would cost $50,000 and that the study could be completed by April 1987. (The DSS proposes to absorb the costs of the contract within the amounts budgeted for 1986–87.) The costs and time frames for the actual study of the targets would depend on the methodology selected.

We believe that the department's proposal to study the way counties are grouped for the purpose of setting productivity targets and to consider alternative ways of budgeting for overhead costs could improve the current cost control plan. This would be true to the extent that these studies identify ways of making the plan more reflective of the actual costs that counties incur to administer welfare programs. Moreover, these studies could be completed on a timely basis. Therefore, we recommend that the Legislature approve these elements of the department's proposal.

Proposed Evaluation of Productivity Targets Would Unnecessarily Delay Needed Improvements to System

We have two major concerns regarding the department's proposal for evaluating the current productivity targets. First, the scope and cost of the evaluation are unknown. Both would depend on the results of the methodology study to be completed by an independent contractor. Second, it is unlikely that the evaluation itself would be completed in time to use the results in budgeting for the 1987–88 fiscal year. In fact, the DSS advises that, depending on the methodology selected, the evaluation could take *several years* to complete.

It is important that the evaluation be completed as soon as possible for two reasons:

- ***Potential Savings.*** The Budget Act prohibits any change in productivity targets until after the study has been completed. This means that under the department's plan, it could be several years before the targets are adjusted. As we have noted above, the targets for AFDC are based on actual performance in 1980–81, and the targets for Food Stamps are based on performance in 1979–80. In recent years, there have been major changes in the complexity of the cases that counties process and in the extent to which counties rely on computers to perform major components of the eligibility determination and benefit issuance process. To the extent that county productivity has improved as a result of these, or other changes, updating the targets could result in major savings to the state.
- ***SAWS.*** If the Statewide Automated Welfare System (SAWS) project meets its schedule for enhancing counties' computer systems, it will have a major impact on county productivity during the next several years. For example, the automated eligibility determination component of SAWS, if it is implemented according to the current schedule, could dramatically increase productivity in the next few years. Should this occur, the department's proposed evaluation of the current productivity targets might well be out-of-date before it is even published.

We believe that the two departments could evaluate the current productivity targets during 1986–87, by using a methodology described in the 1985 Budget Act.

Improvements in Productivity Targets are Possible, Within Reasonable Timeframes

We recommend that the Legislature adopt Budget Bill language directing the DSS and the DHS, in conjunction with the County Welfare Direc-

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

tor's Association, to use a "model" county methodology to evaluate the current productivity targets for the AFDC, Food Stamps, and Medi-Cal programs. We further recommend that the departments report to the Chairman of the Joint Legislative Budget Committee, by December 1, 1986, on their progress in using this methodology to establish productivity targets for 1987–88.

The 1985 Budget Act required that any methodology for evaluating the productivity targets address the effect of the targets on program performance. (The Budget Act stated that program performance should be measured by the rates of overpayment and underpayment of program benefits and the waiting times and processing delays experienced by clients.) In our view, the effect of the targets on program performance is the critical, *perhaps the only issue* to consider when setting the targets. We believe that the "correct" target for any county is that target which is consistent with the sound operation of the program.

Obviously, the Legislature wants to provide counties with adequate resources to operate welfare programs with minimal errors in the amounts paid for benefits and with minimal delays for the recipients. On the other hand, we know of no reason that the Legislature would want to pay counties any *more* to operate the programs than they need in order to do a good job. Given this objective, the issue facing the Legislature with respect to the current productivity targets is technical—how should the department identify the highest productivity standard that is consistent with the sound operation of welfare programs?

Table 3

Productivity, Error Rates, and Processing Delays for the Twelve Largest Counties 1984–85

	Eligibility Worker Caseloads[a]	*Error Rates*[b]	*Percent of Cases Over 45 Days*[c]
Alameda	105.8	3.6%	13.0%
Contra Costa	85.5	2.3	4.9
Fresno	123.8	2.4	8.2
Los Angeles	110.4	2.4	0.5
Orange	80.8	2.6	2.8
Riverside	102.8	2.2	0.8
Sacramento	93.5	2.5	0.0
San Bernadino	95.7	2.2	0.4
San Diego	91.4	3.7	4.7
San Francisco	98.7	5.4	0.2
San Joaquin	113.9	1.1	1.0
Santa Clara	89.0	1.5	11.0
Twelve county average	99.3	2.6%	0.4%
Average of the three "model" counties	109.0	1.9%	0.8%

[a] Figures reflect the weighted average number of intake and continuing cases processed by AFDC eligibility workers and first-line supervisors during 1984–85.

[b] Figures reflect the simple average of the percentage of benefit overpayments in the April 1984 through September 1984, and October 1984 through March 1985, quality control samples. Underpayment errors were not available on a county-by-county basis at the time this analysis was prepared.

[c] Figures reflect the simple average of the percentages of cases that were not processed within 45 days during the March 1984 and June 1984 quarters.

The Budget Act language which requires the evaluation suggests a way to do this. Specifically, it suggests that one option available for evaluating the productivity targets is to use a peer grouping approach in which counties with exceptionally high error rates or long processing delays are excluded from the sample used to establish the targets.

We analyzed the AFDC eligibilty worker caseloads, error rates, and processing delays of the state's 12 largest caseload counties during 1984–85 (the most recent period for which this data was available). Table 3 displays the data used in this analysis. As the table shows, 3 of the 12 counties—Los Angeles, Riverside, and San Joaquin—combined high productivity with exemplary program performance.

The average productivity of these three "model" counties is 109.0 cases per worker, which is about 10 percent higher than the average for the remaining counties. We refer to these counties as "model" counties because they represent the ideal combination of high productivity and solid program performance. Their productivity, therefore, *could* be used as a standard for the other large counties. It is noteworthy that the average productivity of the 12 large counties in 1980–81 (the base year used for the current productivity targets) was 92.6 cases per worker. Thus a target of 109 cases per worker would represent a 17.7 percent increase over the current target.

Before requiring the other nine large counties to move toward this level of productivity, of course, it would be important to determine whether the three model counties differ in any relevant way from the other large counties. Do these counties, for example, have unusual caseload characteristics, geography, or degrees of computerization that could make it easier for them to combine high productivity with good program performance than it is for the other counties? To a large extent, the proposed studies of groupings and of support costs would account for variations of this kind.

We believe that the departments could complete a productivity target evaluation, based on the model county methodology described above, on a timely basis and within available resources. This is not to say that the department's study should take into account *only* the kinds of information reflected in Table 3. It does, however, provide a good starting point for a more detailed evaluation of productivity targets.

It is important to note that our proposal *does not* require that all counties be moved immediately to the model level of productivity. In fact, we would be reluctant to recommend any sudden, large increases in a county's productivity targets because of the potential effect that such a change could have on the county's error rate. Over a period of several years, however, we would expect the DSS to bring the lower productivity counties up to the level of the model counties, without adversely affecting error rates.

Conclusion. In sum, we believe that the departments could use a model county methodology to set achievable productivity standards that would reflect what it actually costs counties to administer the AFDC, Food Stamps, and Medi-Cal programs effectively. Therefore, we recommend that the Legislature adopt Budget Bill language directing the departments, in conjunction with the County Welfare Director's Association, to use a model county methodology to evaluate the current productivity targets for the AFDC, Food Stamps, and Medi-Cal programs. We further recommend that the language require the departments to report to the

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

Joint Legislative Budget Committee and the fiscal committees, by December 1, 1986, on their progress in using this methodology to establish productivity targets for 1987–88. The following Budget Bill language is consistent with this recommendation:

"The Departments of Social Services and Health Services, in conjunction with the County Welfare Director's Association, shall conduct a study of the productivity targets in the AFDC, Food Stamps, and Medi-Cal programs during 1986–87. The study shall identify model counties within the various peer groupings established by the departments. These model counties shall be those that combine relatively high caseloads with relatively good program performance (as indicated by positive and negative error rates, processing delays, and any other performance indicators identified by the departments). The departments shall report to the Joint Legislative Budget Committee, and the fiscal committees by December 1, 1986, on their progress in using this methodology to establish productivity targets for 1987–88."

OTHER ISSUES

What a Bargain: Useless Data, Only $509,000

We recommend that the Legislature adopt Budget Bill language prohibiting the DSS from allocating $122,000 from the General Fund to the counties for their costs of preparing the overpayment collection report until the Director of Finance certifies that the DSS has taken the appropriate steps to ensure accurate reporting.

The budget proposes $509,000 ($122,000 General Fund, $265,000 federal funds, and $122,000 county funds) to cover the counties' costs of submitting a report to the state on overpayments to AFDC recipients. The report, which is required by the federal government, also provides data on overpayment collections.

Overpayments to AFDC recipients occur for one of three reasons: (1) administrative errors caused by Welfare Department staff, (2) errors caused by clients, or (3) fraud committed by clients. When the county becomes aware that an overpayment has occurred, it is required by law to record the overpayment as an account receivable and to attempt to recoup the amount that was overpaid. If an individual who has been overpaid is still receiving aid, the county is required to reduce the individual's welfare grant to recoup the overpayment. In the case of individuals who are no longer receiving aid, counties are also required to attempt to collect outstanding overpayments.

According to the overpayment collection report, accounts receivable involving overpayments totaled $164.4 million as of September 30, 1985. Of this amount, $51.6 million was identified as having been overpaid during FFY 1985 (October 1, 1984 through September 30, 1985). In that year, the counties report that they collected $23.7 million in overpayments and "wrote-off" $5.1 million in accounts receivable as uncollectible.

We *attempted* to assess the counties' performance in recouping overpayments by analyzing the data contained in the overpayment collection report. We were prompted to do so because, on its face, a collection ratio of 46 percent ($23.7 million is 46 percent of $51.6 million) does not seem adequate. The Franchise Tax Board, for example, collects more than 95 percent of accounts receivable from delinquent taxpayers.

Unfortunately, we were unable to assess the counties' performance because the DSS told us *the data contained in the overpayment collection* *report is useless* in terms of assessing individual counties' success in collecting overpayments. Specifically, 12 counties (including 3 of the 12 largest caseload counties) do not provide any data at all; several counties report too late for their data to be included in monthly summary statistics, and 4 counties (including 2 of the 12 "large" counties) provide estimated, rather than actual, data.

We asked the department what it is doing to improve the quality of the data reported by counties in the overpayment collections report. Frankly, the department's answer was not encouraging. The department advises that it simply notifies counties when the report is due and follows up these notifications with telephone contacts.

Until the department begins collecting accurate data on overpayment collections, we see little hope for the Legislature's efforts to assess the adequacy of counties' collections efforts, much less improve their performance. Were these efforts successful, the benefits to the General Fund would be considerable. In fact, we estimate that if the counties collected all of the funds that currently go uncollected, 45 percent of the recoveries, or roughly $75 million would be returned to the General Fund.

Given the amount at stake, it would seem that something more than a telephone call from the department is warranted when the counties do not fulfill their reporting obligations. This is especially true in light of the department's proposal to pay the counties $509,000 for preparing a report which the department acknowledges has no value to the state. Therefore, we recommend that the Legislature adopt Budget Bill language prohibiting the department from allocating state funds to the counties for overpayment collections reports until the Director of Finance has certified that the DSS has taken appropriate steps to ensure that the counties will report accurately, and on a timely basis. The following Budget Bill language is consistent with this recommendation:

"Of the General Fund monies appropriated by this item for allocation to county welfare departments, the Department of Social Services shall hold $122,000 in reserve until such time as the Director of Finance certifies that the department has taken the appropriate action to ensure that the counties provide accurate information, on a timely basis, in the overpayment collection report."

Statewide Automated Welfare System (SAWS)

We withhold recommendation on $2,183,000 ($999,000 General Fund, $1,245,000 federal funds, and a savings to the counties of $61,000) proposed for the SAWS project, pending receipt of the department's annual report on the project (due in March).

The budget proposes $2,183,000 ($999,000 General Fund, $1,245,000 federal funds, and a savings to the counties of $61,000) to support the net county costs of the Statewide Automated Welfare System (SAWS) project in 1986–87. Chapter 268, Statutes of 1984, requires the DSS to report to the Legislature on each year's progress in achieving the goals established in the SAWS project. The annual report is due in March.

We withhold recommendation on the proposal for SAWS positions, pending review of the annual progress report on the SAWS project. Any decision concerning continued funding for this project must be made in light of its progress in meeting its stated objectives.

Department of Social Services

SOCIAL SERVICES PROGRAMS

Item 5180-151 from the General Fund and Federal Trust Fund — Budget p. HW 155

Requested 1986–87	$388,274,000[a]
Estimated 1985–86	308,315,000
Actual 1984–85	232,237,000
Requested increase $79,959,000 (+26.0 percent)	
Total recommended reduction	4,560,000
Recommendation pending	28,064,000

[a]This amount includes $624,000 proposed in Item 5180-181-001(b) for cost-of-living increases.

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-151-001—Social Services Programs, local assistance	General	$387,650,000
5180-151-890—Social Services Programs, local assistance	Federal	(489,359,000)
5180-181-001(b)—Social Services Programs, local assistance	General	624,000
5180-181-890—Social Services Programs, local assistance	Federal	(620,000)
Total		$388,274,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Child Welfare Services (CWS) Review. Recommend that prior to budget hearings, the department report to the fiscal committees on tracking incidents of reabuse. 966
2. CWS—Caseloads. Recommend that prior to budget hearings, the department advise the fiscal committees on its progress in incorporating specific factors into its caseload estimate. 967
3. CWS—Allocation Formula. Recommend that the Legislature adopt Budget Bill language requiring the department to base its allocation formula 50 percent on caseload in 1986–87 and 100 percent on caseload in 1987–88. 967
4. CWS—Cost Control. Recommend that the Legislature adopt Budget Bill language requiring the department to adopt a cost control plan based on specific factors. 968
5. CWS—COLA. Recommend that prior to budget hearings, the Department of Finance advise the fiscal committees how the administration intends to support the state's share of the CWS program given the CWS budget proposal. 970
6. Adult Protective Services. Recommend that the Legislature adopt supplemental report language requiring the department to make specific changes in its data collection for Adult Protective Services. 972

7. In-Home Supportive Services (IHSS)—County Match. Recommend that prior to budget hearings, the department report to the fiscal committees on (a) its reason for requiring the counties to exceed the matching amount specified in state law and (b) how it intends to address the problems resulting from the overmatch. 982
8. IHSS—Funding For Hours Growth. Recommend that prior to budget hearings, the department tell the fiscal committees how it plans to limit the growth in hours per case consistent with the assumptions on which the budget is based. 982
9. ***IHSS—Refugee Expenditures. Reduce Item 5180-151-001 by $610,000 (General Fund).*** Recommend a reduction to reflect savings that will result from requiring the counties to match the General Fund allocation for IHSS services to refugees. 984
10. IHSS—Gatekeeper. Withhold recommendation on $5,514,000 proposed for the Gatekeeper program, pending receipt of the May revision. Recommend that the May revision include a revised cost estimate and a revised allocation methodology for these funds. 984
11. IHSS—Service Providers. Recommend that the Legislature adopt supplemental report language directing the department to compile and evaluate information about IHSS service providers. 985
12. ***Greater Avenues for Independence (GAIN) Program—Proposed Budget.*** Withhold recommendation on the $45,100,000 ($22,550,000 General Fund, $22,550,000 federal funds) proposed for the GAIN program, pending receipt of an updated estimate reflecting the enabling legislation and incorporating changes that result from the department's review of county plans. 990
13. GAIN—Impact on Other Programs. Recommend the department advise the fiscal committees what it expects the impact of GAIN to be on other state-administered programs. 992
14. GAIN—Federal Reimbursement for Subsidized Day Care. Recommend that, prior to budget hearings, the Department of Finance report to the fiscal committees on the administration's progress in developing accounting procedures needed to claim federal reimbursement for state-subsidized day care costs. Withhold recommendation on $31 million in federal funds requested for the purpose of reimbursing the Department of Education, pending receipt of this report. 993
15. ***GAIN—Reappropriation. Reduce Item 5180-151-001 by $3,950,000 and reappropriate $3,950,000 from Ch 1025/85.*** Recommend that the Legislature reappropriate $3,950,000 remaining from Ch 1025/85 and reduce the General Fund appropriation proposed for GAIN in 1986–87 by the same amount to reflect the availability of these funds. 994
16. GAIN—Refugee Social Services. Withhold recommendation on $37,705,000 in federal funds proposed for refugee social services, pending a determination of whether these funds are budgeted twice. 995

SOCIAL SERVICES PROGRAMS—Continued

17. GAIN—Unintended Overhead Cost Shifts. Recommend that the Legislature adopt Budget Bill language directing the department to eliminate, or minimize the potential for unintended overhead cost shifts resulting from implementation of the GAIN program. 996
18. GAIN—Out-Year Fiscal Impact. Recommend that the Legislature adopt Budget Bill language requiring the department to (a) notify the Legislature when the department approves a county plan that implies a higher-than-anticipated cost (given the caseload of the county), and (b) advise the affected county that approval of its plan is subject to review by the Legislature as part of the 1987–88 budget process. 997
19. GAIN—Employment Development Department's (EDD) Role. Recommend adoption of supplemental report language directing the EDD and the DSS to advise the counties that EDD is available to provide services under the GAIN program on a contractual basis. 999

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 these services are (1) Other County Social Services (OCSS), (2) Specialized Adult Services, (3) Employment 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 services each year.

OVERVIEW OF THE BUDGET REQUEST

The budget requests an appropriation of $388.3 million from the General Fund to support social services programs in 1986–87. This is an increase of $80 million, or 26 percent, above estimated current-year expenditures.

The budget proposes $974.3 million in expenditures from all funds to support social services. This amount consists of $883.4 million in appropriated funds (state and federal funds), $88.6 million in anticipated county expenditures, and $2.3 million from the State Children's Trust Fund. 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
1984–85 through 1986–87 [a]
(dollars in thousands)

Programs	Actual 1984–85	Est. 1985–86	Prop. 1986–87 [b]	Change From 1985–86 Amount	Change From 1985–86 Percent
A. Other county social services	$269,734	$295,857	$326,205	$30,348	10.3%
1. Child Welfare Services	(202,449)	(222,813)	(252,590)	(29,777)	13.4
2. County Services Block Grant	(67,285)	(73,044)	(73,615)	(571)	1.0
B. Specialized Adult Services	340,720	418,870	434,888	16,018	3.8
1. In-Home Supportive Services	(335,943)	(413,202)	(429,220)	(16,018)	3.9
2. Maternity Home Care	(2,167)	(2,254)	(2,254)	(—)	—
3. Access Assistance for Deaf	(2,610)	(3,414)	(3,414)	(—)	—
C. Employment Services	13,871	32,533	125,381	92,848	285.0
1. GAIN	(—)	(14,300)	(45,100)	(30,800)	215.0
2. WIN-Demo	(10,682)	(13,535)	(37,903)	(24,368)	180.0
3. JTPA	(3,189)	(4,698)	(211)	(−4,487)	−95.5
4. Other	(—)	(—)	(42,167)	(42,167)	100.0
D. Adoptions	24,182	20,873	20,738	−135	−0.6
E. Refugee Assistance	52,850	41,707	43,803	2,096	5.0
1. Social Services	(19,733)	(22,928)	(27,109)	(4,181)	18.2
2. Targeted Assistance	(33,117)	(17,260)	(15,175)	(−2,085)	−12.1
3. RDP	(—)	(1,519)	(1,519)	(—)	—
F. Child Abuse Prevention	11,604	19,654	23,297	3,643	18.5
Totals	$712,961	$829,494	$974,312	$144,818	17.5%
Funding Source					
General Fund [c]	*$233,833*	*$328,448*	*$393,382*	*$64,923*	*19.8%*
Federal funds	*419,239*	*423,264*	*489,979*	*55,715*	*15.8*
County funds	*60,933*	*76,870*	*88,613*	*11,743*	*15.3*
Children's Trust Fund	*−1,044*	*912*	*2,338*	*1,426*	*156.4*

[a] Includes actual 1984–85 and anticipated 1985–86 and 1986–87 county expenditures.
[b] Includes funds for COLAs ($19,675,000 from the General Fund, $6,233,000 in federal funds, and $6,733,000 in county funds). Included in these amounts is the Child Welfare Services COLA for 1981–82 through 1984–85.
[c] Includes General Fund expenditures of $388,274,000 requested in the Budget Bill and $5,108,000 from other appropriations.

Significant Budget Changes

Table 2 shows that the proposed level of expenditures from all funds for social services in 1986–87 is $144.8 million, or 17.5 percent, above estimated current-year expenditures. It also shows the various changes in funding for social services programs that are proposed in the budget year. The more significant of these changes are as follows:

- A $6.2 million increase due to anticipated growth in caseloads under the Child Welfare Services (CWS) program.
- A $31.3 million increase to provide for prior-year cost-of-living adjustments (COLAs) in the CWS program.
- A $3.1 million increase for administration of the In-Home Supportive Services (IHSS) program due to increased caseloads.
- A $3.2 million reduction due to savings associated with the IHSS Management Information System.
- A $36.8 million increase due to increased caseloads in the IHSS program.
- A $21.6 million decrease due to the one-time costs in the current year of the settlement in the *Miller v. Woods* court case.

SOCIAL SERVICES PROGRAMS—Continued

Table 2
Department of Social Services
Proposed Budget Changes
Social Services Programs
1986–87
All Funds
(dollars in thousands)

1985–86 expenditures (revised)		$829,495
A. Proposed changes:		
1. Other County Social Services		
a. CWS increased caseload	$6,182	
b. Chapter 1426, Statutes of 1985, COLA augmentation	−7,733	
c. CWS prior-year COLA	31,328	
d. IHSS administration increased caseload	3,085	
e. *Miller v. Woods*	−706	
f. Savings due to IHSS Management Information System	−3,223	
g. Increased administrative costs attributed to Gatekeeper	265	
h. Chapter 1163, Statutes of 1985 Adult Protective Services Demonstration Project	900	
i. Chapter 1159, Statutes of 1985, Adult Shelter Demonstration Project	250	
		30,348
2. In-Home Supportive Services		
a. Increased caseload	38,334	
b. Adjustments to basic costs	2,828	
c. *Miller v. Woods*	−21,600	
d. Time-per-task	−5,710	
e. Gatekeeper	2,411	
f. Other	−938	
		15,325
3. Employment services		
a. WIN	24,368	
b. JTPA child care	−4,487	
c. Employment Preparation Program	9,707	
d. GAIN	30,800	
e. San Diego EWEP	840	
f. SDE child care transfer	31,000	
		92,228
4. Adoptions		
a. Caseload adjustments	29	
b. Joint Assessment Facilitation	−125	
c. Inter-country adoptions	−39	
		−135
5. Refugee programs		
a. Social services	4,181	
b. Targeted assistance	−2,085	
		2,096
6. Child abuse prevention		
a. Chapter 1618, child abuse prevention training	—	3,642
B. Proposed COLAs		
1. IHSS Statutory maximum	693	
2. Employment Services	620	
		1,313
1986–87 expenditures (proposed)		$974,312
Change from 1985–86		
Amount		$144,817
Percent		17.5%

- A $5.7 million decrease due to savings associated with the implementation of the time-per-task standards in the IHSS program.
- A $92.2 million increase in the cost of employment programs due to (1) the implementation of Chapter 1025 and (2) the transfers of funding for some of these programs from other parts of the state budget into this item.
- A $4.2 million increase due to increased caseloads in the Refugee Services Program.
- A $3.6 million increase in order to fund the Child Abuse Prevention Training Act (Chapter 1618) as an ongoing program.

The proposed increase of $144.8 million from all funds consists of (1) a General Fund increase of $64.9 million, or 20 percent, (2) a federal funds increase of $55.7 million, or 16 percent, (3) an increase in county funds of $11.7 million, or 15 percent, and (4) an increase of $1.4 million from the State Children's Trust Fund. The General Fund bears a larger share of the increase in the cost of social services programs for the following reasons:

- ***State Law Limits the Counties' Share of Costs.*** Chapter 978, Statutes of 1982, limits the increase in the counties' share of OCSS program costs to the percentage cost-of-living increase provided in the program. As a result, the state will fund 82 percent of the increase in nonfederal costs under the OCSS program in 1986–87; the counties will pay for the remaining 18 percent. Similarly, state law (Chapter 69, Statutes of 1981) limits the counties' share of costs under the IHSS program to 10 percent of any increase in total program costs over a specified base amount. The administration, however, proposes that in 1986–87, counties be required to provide a match exceeding the amount specified in state law by 58 percent, or $9.6 million. (We discuss this issue in more detail below.)
- ***Limited Federal Funds.*** The amount of federal funds (Title XX, Title IV-B, Title IV-C, Refugee, and LIHEAP) made available to California is based on federal appropriation levels and the state's share of the nation's population (or other demographic measures). The amount of these funds is not provided based on program costs, as is the case under programs such as Aid to Families with Dependent Children. Thus, although expenditures for the programs supported by Title XX (IHSS) are budgeted to *grow* by 3.7 percent in 1986–87, California's Title XX allocation for federal fiscal year (FFY) 1987 is expected to be about 3 percent *less* than the state's allocation for FFY 1986.

ANALYSIS AND RECOMMENDATIONS

OTHER COUNTY SOCIAL SERVICES

Proposed Funding for OCSS. The budget proposes total spending of $326.2 million for the OCSS program in 1986–87. This amount consists of $60.2 million in federal funds (Titles IV-A, IV-B, and IV-E), $204.6 million in General Fund support, and $61.4 million in county funds. The total amount proposed for OCSS is $30.3 million, or 10.3 percent, larger than the 1985–86 amount.

Of the amount requested for OCSS, $252.6 million is proposed for the Child Welfare Services (CWS) program. This amount includes $31.3 million (all funds) to fully fund COLA as provided by county welfare departments to their staffs between 1981–82 and 1984–85. The balance of the OCSS request—$73.6 million—is proposed for the County Services Block

SOCIAL SERVICES PROGRAMS—Continued

Grant (CSBG). The budget does not propose a COLA for OCSS to compensate for inflation in 1986–87.

County Services Block Grant (CSGB). 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 (CWS). The CWS program provides services to abused and neglected children and children in foster care and their families. The program has four separate elements:

- *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.

Review of the Child Welfare Services Program

We recommend that prior to budget hearings, the department describe for the fiscal committees (1) the type of information yielded by its system for tracking recidivism rates among children who have been reunited with their families (that is, the rate at which children reenter the CWS system) and (2) the usefulness of this information.

In a May 1985 report entitled *Child Welfare Services: A Review of the Effect of the 1982 Reform on Abused and Neglected Children and Their Families* (No. 85-13), we evaluated the performance of the CWS program and its effect on abused and neglected children and their families. That report contains the recommendation listed above. This recommendation reflects the fact that no information is available which allows the Legislature to determine if a child is returned to foster care after having received family reunification services.

Caseload Estimates for Family Reunification and Permanent Placement May be Underestimated

We recommend that, prior to budget hearings, the department advise the fiscal committees on its progress in incorporating specific factors into its estimates of the family reunification and permanent placement caseloads.

In our analysis of the AFDC-Foster Care (AFDC-FC) program, we point out that the department's caseload projections for 1986–87 are not consistent with recent experience. Specifically, the department assumed that the foster care caseload will increase until December 1985, at which time it will flatten and remain level through 1986–87. Because the children in the family reunification and permanent placement programs are essentially the same children served by the AFDC-FC program, DSS has also assumed that the caseload for these two CWS programs will display a similar no-growth pattern. The department's assumption may cause the CWS program to be underfunded by about $11 million (all funds).

As we point out in our analysis of the foster care caseload, the department did not consider a number of factors which might explain why the foster care caseload has been increasing. These factors include increased reports of abuse and increased CWS activities made possible by the increased level of funding. These factors also may help to explain the increase in caseloads for family reunification and permanent placement programs.

With this in mind, we recommend that DSS (1) consider the increasing number of abuse reports, as well as the effects of the CWS system, when estimating future caseload growth for the family reunification and permanent placement programs, and (2) report to the Legislature on its progress in explaining recent caseload trends using these variables.

Child Welfare Services Allocation Formula Needs Improvement

We recommend that the Legislature adopt Budget Bill language modifying the formula used to allocate funds to counties.

As we have pointed out in recent years, there is a large disagreement between the state and the counties as to whether the funds provided for CWS have been adequate to fully fund the program. One of the reasons for this disagreement is that the department allocates funds to the counties based on measurements of need that are different from the measures used to determine the statewide costs of the program.

The department estimates the statewide costs of the program based almost entirely on the actual and projected CWS caseloads. The department, however, allocates funds to the counties using a formula that is not based primarily on CWS caseloads. This formula is based on the following factors:

1. Number of AFDC-FC children in each county (weighted 26.6 percent).
2. Number of AFDC-FG/U children in each county (26.6 percent).
3. Population age 0–17 in each county (26.6 percent).
4. County reports on emergency response and family maintenance caseloads (10 percent).
5. County reports on family reunification and permanent placement caseloads (10 percent).

Thus, CWS caseload measures are given only a 20 percent weight in the allocation formula. The other 80 percent is accounted for by broad indicators of need.

SOCIAL SERVICES PROGRAMS—Continued

While AFDC caseloads may be good indicators of the amount of poverty in a county, we have never found any significant correlation between poverty levels and child abuse. Moreover, while population age may be a good measure of the *potentially* abused and neglected population, it does not measure need as adequately as CWS caseloads. As a result, the department's allocations to counties may not accurately reflect the counties' actual CWS program costs.

The requests from a number of counties to shift $1.9 million (net) of their 1984–85 CWS allocations to their County Services Block Grant allocations is another indication that the allocation methodology is not reflective of individual county needs.

Historically, DSS has argued that the CWS caseload data collected from the counties are not accurate enough to guide the allocation of CWS funds. We believe, however, that caseload reports have become increasingly more accurate since the beginning of the present CWS program, due to the efforts of both the department and the counties. Moreover, DSS must have a large degree of confidence in this data since it uses the data to prepare the budget proposal for the CWS program. If the caseload information received from the counties is accurate enough to be used in this manner, it is not clear why it should not be used as the basis for allocating CWS funds to the counties.

We believe it is time to begin allocating CWS funds based on program need as measured by program caseload. To allow for a smooth transition to a new caseload-based allocation system, we suggest that the new system be phased in over two years. Accordingly, we recommend that the Legislature adopt Budget Bill language requiring DSS to increase the weight given to caseload reports in its allocation formula from 20 percent to 50 percent in 1986–87, and from 50 percent to 100 percent in 1987–88. The following language is consistent with this recommendation:

> "The Department of Social Services, in consultation with representatives from county welfare departments, shall implement a formula for allocating Child Welfare Services (CWS) funds to counties, that in 1986–87 is based 50 percent on CWS caseloads, and is based 100 percent on CWS caseloads in 1987–88. The other factors currently used to allocate funds—AFDC caseloads and population age 0–17—shall be reduced accordingly."

DSS Needs a CWS Cost Control Plan

We recommend that the Legislature adopt Budget Bill language requiring DSS to adopt a cost control system for CWS based on specified factors.

State law requires the department to establish "a plan whereby costs of county-administered social services programs will be effectively controlled within the amount annually appropriated for these services." The DSS currently uses its county allocation plan as its cost control plan.

We recognize that an allocation plan limits the amount of state and federal funds that each county may spend, and is, therefore, a *spending plan*. A spending plan, however, is not the same as a cost control plan, for the following reasons:

- ***An Allocation Plan Provides Information on How Much Money Will be Spent for a Program: It Does Not Help Control Program Costs.*** The state needs to exert some control over individual county expenditures because the counties make decisions that directly affect the cost of the CWS program. For example, counties are able to influence the following factors:

- ***Caseloads.*** To the extent that counties prioritize the types of referrals to which they respond, they affect caseload size. For example, some counties may determine that they will respond only to the most urgent, life-threatening of abuse reports. Other counties may respond to reports of a less threatening nature (for example, a report of a child occasionally being left alone).
- ***Salaries.*** Counties set the salary ranges for their employees. While their flexibility in this area is constrained by collective bargaining and labor market conditions, counties have a much more direct impact on the staff costs of the CWS program than does the state. Because the budget proposes to remove the limit on General Fund support for county-granted COLAs, the state will no longer be able to rely on this mechanism to control costs in the program.
- ***Staff Size.*** Counties, rather than the state, decide how funding—and thus, staff—is allocated among the four CWS programs. Counties may opt to place more social workers in a program than are necessary in order to comply with state law. For example, our May 1985 report on CWS shows that counties have allocated more social workers to the family reunification and permanent placement programs than are needed in order to achieve the goals of the program. Although DSS uses staffing "guidelines" when estimating the costs of the CWS program, these guidelines are not enforced at the county level. By enforcing workload standards at the county level, DSS would be able to limit the state's share of CWS program costs, while assuring that state aid is adequate to provide for the social workers needed in order to comply with the service requirements.

- ***An Allocation Plan Cannot Serve as the Basis for Determining the Appropriate Costs of Providing These Services.*** Specifically, the allocation plan provides no basis for determining workload standards (that is, the number of cases a social worker *should* carry). These workload standards are important because they provide a means for ensuring that staffing increases (and therefore increased costs) are the result of increases in workload (cases).

We believe that a cost control plan based on workload standards will ensure that increased costs in the program are the result of increased workload, rather than inefficiencies. These workload standards should:

- ***Reflect the counties' actual experience*** in each of the four CWS program areas after full-funding of the program.
- ***Include a clear definition of what constitutes a "case."*** Currently, the definition of a "case" can be a child, an entire family, or any individual receiving services through the CWS system.
- ***Include a clear measure of what is a successful termination of service.*** It is important that counties and DSS be able to measure the *effectiveness* of the CWS program, not just compliance with regulations.

Accordingly, we recommend that the Legislature adopt Budget Bill language requiring DSS to adopt a cost control system based on (1) workload standards reflective of the increased level of staff allowed by the additional funding of the program, (2) clear definitions of what constitutes

SOCIAL SERVICES PROGRAMS—Continued

a case, and (3) a clear measurement of the effectiveness of county-delivered CWS. These standards should be reviewed annually and revised as necessary. In order to provide for a smooth transition to the new system, we recommend that it be phased-in over a two-year period. The following language is consistent with this recommendation:

"The Department of Social Services shall, in consultation with representatives of county welfare departments, adopt a cost control system that employs workload standards for each of the four Child Welfare Services programs. These standards shall be implemented over a two-year period beginning in 1986–87. The standards shall be reviewed annually by the department and the counties and revised as necessary. The department shall, also in consultation with county representatives, develop a definition of what constitutes a "case" in all four Child Welfare Services programs, to be applied in regulation. The department and the counties shall develop clear measures for the successfulness of service delivery in the Child Welfare Services program."

Underfunding of Child Welfare Services

We recommend that prior to budget hearings, the Department of Finance advise the fiscal committees how the administration intends to support the state's share of the Child Welfare Services (CWS) program.

Our review of the proposed budget for the CWS program finds that the program is underfunded by approximately $2 million. The shortfall consists of $1.3 million in General Fund support and $0.7 million in federal and county funds.

The Department of Social Services (DSS) estimates that in 1985–86, the counties will grant COLAs of 4.8 percent to their employees in the county-administered welfare programs—Aid to Families with Dependent Children (AFDC), Food Stamps, and CWS. The budget proposals for AFDC and Food Stamps include General Fund support for the state's share of the full 4.8 percent COLA. The budget, however, provides General Fund support for COLAs amounting to only 4 percent in the case of the CWS program. This results from a technical error in the budget proposal.

We recommend that prior to budget hearings, the Department of Finance advise the fiscal committees how the administration intends to fund the state's share of the CWS program.

ADULT PROTECTIVE SERVICES

The Adult Protective Services (APS) program in California provides protective services to dependent adults and elders in order to prevent or remedy neglect, abuse, or exploitation of these individuals. Under the APS program, an elder is someone who is age 65 or over. A dependent adult is anyone over the age of 18 who is unable to live independently because of physical, mental, or emotional handicaps.

Examples of Service Delivery

The types and extent of services provided under the APS program vary significantly among the counties. This is because state law and regulations do not specify the type of services to be provided to eligible clients. As a result, counties have established programs that differ depending on demographics, history, and financial and political priorities.

Most counties offer a core of basic services which are designed to provide short-term, crisis intervention assistance to eligible adults. These basic services include:

- Direct telephone access to the county APS agency.
- Screening of telephone calls to determine the urgency of the situation and the appropriate action that should be taken.
- Emergency response to calls during working hours. Generally, APS agencies can have a social worker respond to emergency situations within several hours, depending on the urgency of the situation. In most counties, this capability exists only during regular working hours.
- Referral to other community services and law enforcement agencies. Often APS agencies receive calls from individuals who are requesting only information or who would be better served by another agency.
- Limited case management. In some instances, social workers provide case management services by arranging for the provision of direct services such as counseling and respite care, rather than providing these services directly. In most counties, the goal is to limit case management services to about 30 days. The length of time an individual case is carried by a social worker depends on the seriousness of the case and the amount of funds available to the agency.
- Placement assistance. Social workers will arrange for out-of-home care for an elder or dependent adult when the individual is unable to arrange such services. Placement is usually into a board and care or skilled nursing facility or hospital.

In addition to these basic services, some counties elected to provide other services. These additional services may include:

- ***Transportation.*** Some counties provide transportation to medical appointments, day care/treatment facilities, shopping, shelter, or placement out-of-county.
- ***Counseling.*** Some counties provide this service directly if they have the resources and expertise available.
- ***Twenty-Four Hour Emergency Response.*** A few counties have the staff and resources to provide around-the-clock emergency assistance to eligible adults. This normally consists of face-to-face contact between the social worker and the abused adult, and may include finding emergency shelter or placement in a medical facility.
- ***Shelter Care.*** County-operated or funded shelters are available in a few counties. In counties that operate or fund their own shelters, this service usually is available to the eligible person for a very limited period of time—usually 24 hours. Use of Salvation Army shelters and similar facilities is common in counties with and without their own shelters.
- ***Emergency In-Home Supportive Services (IHSS).*** Counties are authorized to arrange for IHSS before a person's eligibility has been determined. Counties use this service to varying degrees.

Funding of Adult Protective Services

The Other County Social Services (OCSS) program provides funds for Child Welfare Services (CWS) and the County Services Block Grant (CSBG). The CSBG funds are then divided between In-Home Supportive Services (IHSS) administration and "other social services." Other social services include Adult Protective Services, Information and Referral, staff development, and several optional programs.

SOCIAL SERVICES PROGRAMS—Continued

Although funds for CWS and CSBG are provided to counties in separate allocations, counties may request a transfer of funds between these two programs. In 1984–85, 16 counties requested a shift of funds between their CWS and CSBG allocations. This resulted in a net shift of $1.9 million out of CWS and into CSBG. Counties also have wide discretion as to how they allocate funds to the programs within the CSBG.

Table 3 shows the funding levels for CSBG between 1983–84 and 1986–87. Although the funds for IHSS administration and other social services are identified separately, counties can shift funds to any program within the block grant according to their own priorities. For this reason it is difficult to estimate what the actual level of expenditure will be for the individual programs within the block grant. Funding for APS at the county level will depend on the emphasis placed on the program by the counties in relation to the other block grant programs.

Table 3
County Services Block Grant
All Funds
1983–84 through 1986–87
(in thousands)

	Other Social Services [a]	*IHSS Administration* [b]	*Total*
1983–84	$25,560	$36,931	$62,491
1984–85	26,602	41,053	67,655
1985–86	27,665	45,379	73,044
1986–87	27,665	44,800	72,465

[a] Increases due to COLAs.
[b] Fluctuations due to changes in caseload and COLAs.

Legislature Needs Better Information on the Adult Protective Services Program

We recommend that the Legislature adopt supplemental report language requiring the department to make specific changes in the data it collects regarding Adult Protective Services.

During the last couple of years, the Legislature has expressed increasing concern about California's Adult Protective Services Program. In order to address these concerns, the Legislature enacted several measures including the following:

- ***Chapter 1273, Statutes of 1983 (SB 1210).*** This measure requires specified professionals—primarily doctors, welfare and probation department workers, and employees of nursing homes—to report incidents of elder abuse. The measure also required the Department of Social Services to submit a report to the Legislature on various aspects of elder abuse.
- ***Chapter 1163, Statutes of 1985 (SB 129).*** This measure appropriates $1.0 million from the General Fund in order to establish model APS projects in a minimum of five counties.
- ***Chapter 1159, Statutes of 1985 (AB 57).*** This measure appropriates $560,000 from the General Fund to develop a pilot program to establish emergency and temporary shelters for elderly and dependent adult victims of abuse, neglect, or abandonment.

In December 1985, the department submitted to the Legislature the report required by Chapter 1273. We have reviewed the findings contained in the report.

In general, the report provides the Legislature with some valuable information on the extent to which dependent adults and elders are abused. It offers statistical information on the number of dependent adult and elder abuse referrals received by counties during calendar year 1984. The report also provides limited information on the nature of abuse situations and the relationship between the victim and the abuser. The Legislature, however, should be aware that the data in the report have these limitations:

- ***In General the Report Does Not Distinguish Between Abuse and Self-Neglect.*** While the report shows that in one month (July 1984) self-neglect accounted for about 52 percent of the reports of abuse and neglect, it is not clear that this is representative of reports received in other months.
- ***To a Certain Extent, the Report Double-Counts Cases of Abuse and Neglect.*** This is because more than one person may report the same case of abuse to an elder protective agency.
- ***The Characteristics Study of Abuse Victims and Their Abusers Was Derived From Data Collected During Only One Month—July 1984.*** As a result, there is no information available about whether or not the characteristics of abuse victims and their abusers change over time. The department advises us that it does not have any plans to collect more data on the characteristics of the abused and the abusers.
- ***The Report Does Not Identify the Number of Reports of Abuse and Neglect Which Result in a Case for Which Ongoing Services Are Provided.*** As a result, the department cannot identify the number of APS cases in a county.

The department advises that while it will continue to compile information on reports of abuse and neglect, it has no plans to submit this information to the Legislature or to conduct another characteristic survey.

We believe the department should improve the reporting of dependent and elder abuse and self-neglect and submit this information to the Legislature. Such information will assist the Legislature in determining the potential fiscal impact of expanding statewide the pilot projects established by Chapters 1159 and 1163.

In order to improve the reporting of dependent adult and elder abuse and self-neglect, we recommend that the department modify the current reporting system so that it:

- Prevents duplicate counting of abuse reports.
- Distinguishes between abuse by others and self-neglect.
- Identifies the type of abuse or neglect that has occurred (for example, physical, sexual, fiduciary).
- Indicates the person (friend, relative, medical practitioner, etc.) who identified the abuse or neglect.
- Identifies the action taken by the county in response to the report of abuse or neglect.
- Identifies the number of APS cases in a county, using a consistent definition of a case.
- Collects information once a year on the characteristics of dependent adults and elders who are abused or suffer from self-neglect.

To assure that this occurs, we recommend that the Legislature adopt the following supplemental report language:

SOCIAL SERVICES PROGRAMS—Continued

"The Department of Social Services shall report to the Legislature by March 1, 1987, on the characteristics and frequency of dependent adult and elder abuse and self-neglect in the state during 1986. The report shall:

"• Identify the number of dependent adults and elders who are victims of abuse according to the type of abuse that has occurred (physical, etc.).

"• Identify separately the number of dependent adult and elder abuse and self-neglect cases.

"• Identify the sources of reports of abuse or neglect.

"• Identify the action taken by the county for each report of abuse or neglect.

"• Identify the APS caseloads in each county, using a consistent definition.

"• Include a characteristic survey of abuse victims and abusers for at least one month during 1986."

IN-HOME SUPPORTIVE SERVICES

The In-Home Supportive Services (IHSS) program provides assistance to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without assistance. This criterion implies that the IHSS program *prevents* the institutionalization of recipients. Eligibility for the program, however, is *not* based on the individual's risk of institutionalization. Instead, an individual is eligible for IHSS if he/she lives in his or her own home, or is capable of safely doing so, if IHSS is provided and meets one of the following conditions:

- Satisfies all SSI/SSP eligiblity criteria.
- Was once eligible for SSI/SSP due to disability, and although currently 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.

An eligible individual will receive IHSS services if the county determines that (1) these services are not available through alternative resources and (2) the individual is unable to remain safely at home without the services.

The following services are available through the IHSS program:

- ***Domestic and related services*** such as routine cleaning, meal preparation, shopping, and other household chore services.
- ***Nonmedical personal services*** such as feeding, bathing, bowel and bladder care, dressing, and other services.
- ***Essential transportation.***
- ***Yard hazard abatement.***
- ***Protective supervision,*** such as observing the recipient's behavior to safeguard him or her against injury.
- ***Teaching and demonstration*** to enable recipients to perform services that they currently receive from IHSS.
- ***Paramedical services*** which are (1) performed under the direction of a licensed health care professional, (2) necessary to maintain the recipient's health, and (3) activities the recipient would normally perform but for their functional limitations.

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 services delivery method involves the use of individual providers. The department estimates that individual providers will provide services to 80 percent of all IHSS recipients in 1985–86.

IHSS Faces Major Deficit in the Current Year

The department estimates that expenditures for the IHSS program in 1985–86 will exceed the current-year appropriation by $23,270,000. This increase includes:

- $20 million due to average hours per case being 5.7 percent higher than what was estimated in the 1985 Budget Act.
- $3.3 million due to a caseload that is 1 percent higher than what was estimated in the 1985 Budget Act.

The department indicates that it will not implement program reductions in order to keep the IHSS program within the amounts appropriated by the 1985 Budget Act. Instead, the department proposes to fund $17.1 million through a deficiency appropriation that will consist of $15.6 million from the General Fund and $1.5 million in county funds. In addition, the department indicates that (1) it will allocate $585,000 in federal Title XX funds to the program and (2) the counties will fund an additional $5.6 million of the deficit. (The department's plan to fund the deficit is discussed further later in this analysis.)

Deficit May Be Higher Than the Department Projects

Our analysis indicates that the 1985–86 deficit actually is $26,070,000, or $2.8 million higher than the department currently projects. The department reduced the estimate of the deficit by $2.8 million on the assumption that the growth in hours per case will decline slightly as a result of county controls. The department, however, has provided us with no information to document this assumption.

Proposed Budget-Year Expenditures

The budget proposes $428,527,000 in expenditures for the IHSS program in 1986–87. This is an increase of $15.3 million, or 3.7 percent, above estimated current-year expenditures. The significant changes that account for the increase are as follows:

- A $36.8 million increase to fund an estimated 8 percent increase in basic caseload, and a 2.5 percent increase in average hours per case.
- A $2.8 million increase in adjustments to basic costs because savings of a like amount will not occur in 1986–87.
- A $2.4 million increase to fund increased basic costs, which the department attributes to the Gatekeeper program.
- A $1.5 million increase to fund the 1985–86 provider COLA.
- A $21.6 million decrease reflecting one-time costs in the current year associated with the settlement in the *Miller v. Woods* court case.
- A $5.7 million decrease resulting from full-year implementation of time-per-task standards.

Table 4 displays IHSS program expenditures, by funding sources, for the past, current, and budget years.

SOCIAL SERVICES PROGRAMS—Continued

Table 4
Department of Social Services
IHSS Program
Expenditures and Funding Sources
1984–85 through 1986–87
(dollars in thousands)

Funding Sources	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent Change From 1985–86*
General Fund	$161,587	$90,034	$103,639 [a]	15.1%
Federal funds	166,774	303,221	298,673	−1.5
County fund	7,582	19,947	26,215 [a]	31.4
Totals	$335,943	$413,202	$428,527 [a]	3.7%

[a] Includes $693,000 to provide a 4.9 percent statutory cost-of-living adjustment to raise the maximum payment level for specified recipients.

Table 4 shows that, while expenditures for the IHSS program from all funds are expected to increase by 3.7 percent, expenditures from the General Fund are expected to increase by 15 percent, and expenditures from county funds are expected to increase by 31 percent. The increase in General Fund expenditures results from the fact that federal Title XX funds carried over from 1984–85 to 1985–86 will not be available in 1986–87. The increase in county expenditures results from (1) the department's proposal to increase the county matching amount (discussed later in this analysis) and (2) the fact that statute requires the counties to fund 10 percent of a growing proportion of the total IHSS program costs.

The budget estimates that the number of persons served by the IHSS program will increase by 9,145, or 7.9 percent, above the estimated number of persons served in the current year. Table 5 displays the average monthly caseload, by service delivery type, for the past, current, and budget years.

Table 5
Department of Social Services
IHSS Program
Average Monthly Caseload
By Provider Type
1984–85 through 1986–87

Service Provider Types	*Actual 1984–85*	*Est. 1985–86*	*Prop. 1986–87*	*Percent of Total 1986–87*	*Percent Change From 1985–86*
Individual providers	84,545	92,852	101,375	81.2%	9.2%
Contract provider agencies	20,298	21,536	22,158	17.7	2.9
County welfare staff	1,487	1,350	1,350	1.1	—
Totals	106,330	115,738	124,883	100.0%	7.9%

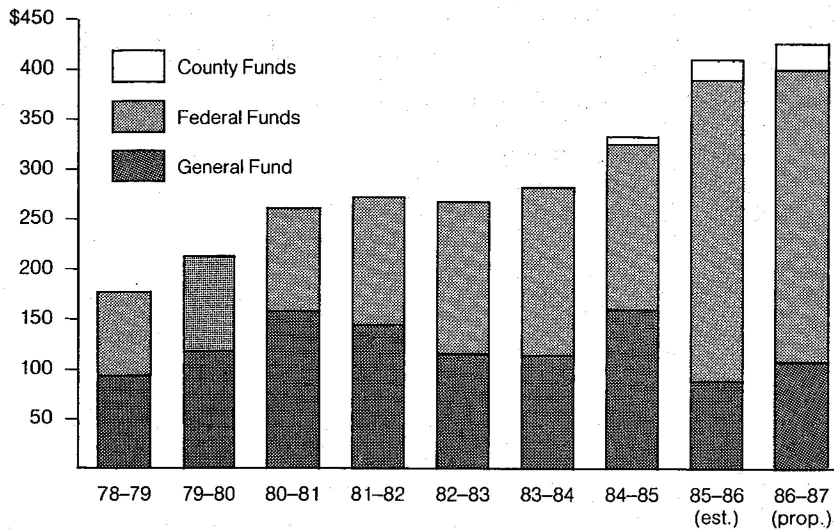
Expenditures and Program Growth Returning to Pre-SB 633 levels

Chapter 69, Statutes of 1981 (SB 633), made significant changes in the IHSS program that slowed the growth of program expenditures for several years. Senate Bill 633 required counties to (1) share in the costs of the program and (2) submit expenditure plans to DSS. The bill also authorized counties to make specified program cuts in order to stay within their allocation of funds. In addition, Senate Bill 633 eliminated "comfort" as a basis for assessing an individual's need for services. As a result of these changes, counties are required to provide only those services that recipients need in order to ensure that they can live *safely* at home.

Chart 1 displays expenditures in the IHSS program for a nine-year period. During the period prior to implementation of SB 633 (1978–79 through 1980–81), the program grew at an average annual rate of 22 percent. Following the implementation of SB 633 in 1981–82, the annual growth rate slowed to 2.9 percent for three years. Between 1983–84 and 1985–86, however, expenditures climbed by an average annual rate of 20 percent.

Chart 1

In-Home Supportive Services' Expenditures Continue to Increase 1978–79 through 1986–87 (in millions)



In spite of the recent growth in IHSS expenditures, DSS proposes an increase of only 3.7 percent for the IHSS program in 1986–87. The department asserts that the following three factors will cause IHSS expenditures to grow more slowly than in previous years:

- The average number of hours per case will not grow as fast as it has

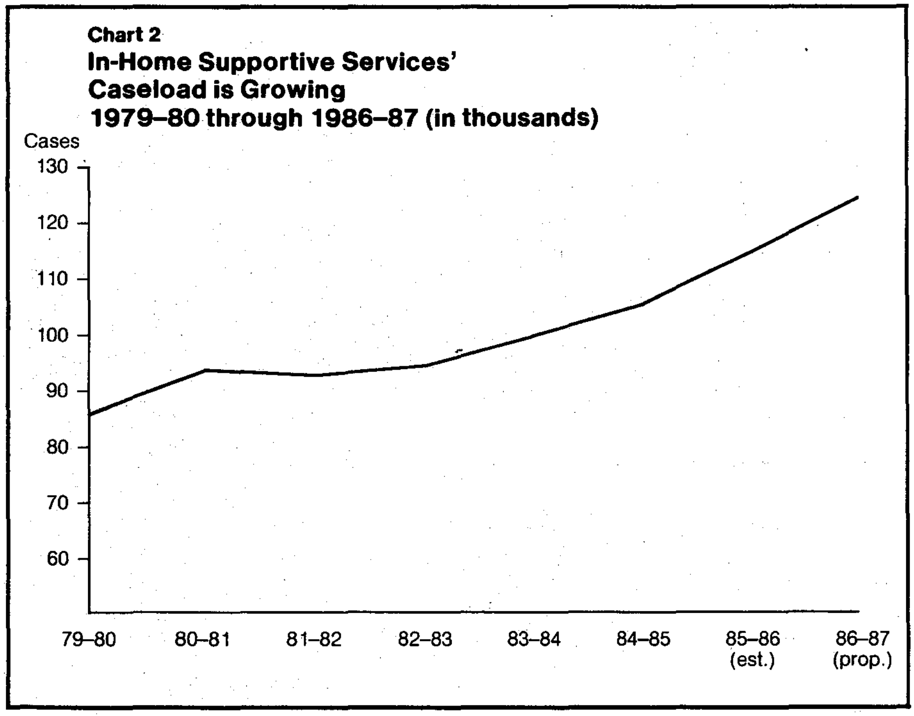
SOCIAL SERVICES PROGRAMS—Continued

in recent years. Although the average hours per case have grown at an annual rate of 4.5 percent in the past, the department estimates that these hours will increase by only 2.5 percent in 1986–87. This reduces estimated costs by $9 million (all funds).

- The budget does not provide a discretionary cost-of-living (COLA) increase for service providers, resulting in a decrease of $3.6 million for each 1 percent increment.
- The budget anticipates that a settlement in the *Miller v. Woods* court case covering retroactive costs will result in a one-time cost of $21 million in the current year which will not occur in 1986–87.

It is important to note that if the department (1) proposed to fund the average hours per case based on recent experience and (2) provided a 4 percent COLA as it did in the current year, expenditures for 1986–87 would increase by 9.4 percent over the current year, instead of by 3.7 percent as the department projects. This rate is less than the 1985–86 rate because of the one-time costs in the current year resulting from *Miller v. Woods.*

Growing Demand for Services Explains Expenditure Growth. In general, two factors account for the growth in IHSS expenditures: (1) increased caseloads and (2) increases in the average hours of service provided to recipients. For example, the 20 percent average annual growth in expenditures between 1983–84 and 1985–86 can be attributed to (1) an average annual growth of 5.5 percent in hours per case and (2) a 7.6 percent average annual growth in caseload. Chart 2 shows that the IHSS caseload has increased steadily since 1982–83.



The rate of growth in caseload and average hours per case is unlikely to diminish. This is because factors that are external to the program will continue to increase public demand for IHSS. These factors include the following demographic trends and governmental initiatives:

- ***The Population That Is Potentially Eligible for IHSS in California Is Increasing.*** The SSI/SSP caseload—which is the primary source for IHSS cases—has been increasing steadily since 1983–84. The department projects that the average monthly SSI/SSP caseload will increase by 18,213 recipients, or 2.7 percent, between 1985–86 and 1986–87. In addition, between 1980 and 1990 the population over the age of 65 is expected to increase at approximately double the rate for the under age 65 group, and the population which is 85 years of age and over is expected to increase at three times that rate.
- ***Hospitals Are Accelerating the Rate of Patient Discharges Because the Government and Private Insurers Are Reducing Reimbursements to Hospitals.*** For example, Medicare payments to hospitals have been curtailed by the new prospective payment system based on diagnostically related groups (DRGs). The payment system provides an incentive for hospitals to discharge patients "quicker"—and possibly "sicker" than they might have been in the past. Counties report that hospital discharge planners are referring an increasing number of these patients to IHSS so that they can safely recover in their own homes. As a result, many counties report an increase in referrals from hospitals.
- ***The Legislature Has Initiated Several Programs Which May Channel Individuals into the IHSS Program, Such as Adult Protective Services (APS), the Gatekeeper Program, Linkages, and the Multipurpose Senior Services Program (MSSP).*** In 1985, the Legislature also passed Ch 1286/85 (AB 2541), which provides funds to counties to serve the mentally ill homeless. All of these programs provide referral services to individuals that (1) are eligible for IHSS and (2) may be in need of IHSS.
- ***Advances in Medical Technology, Such as Portable Respirators and Treatment, Allow More Seriously Disabled Individuals Who Need More Hours of Service to Live at Home.***
- ***Demand for Services Is Accelerating in Those Counties That Have the Largest Share of Both the State's IHSS and SSI/SSP Populations.*** Therefore, in those countries that are already adding more than their share of new IHSS recipients, a greater number of individuals are *potentially* eligible for services than in other counties. For example, between 1983–84 and 1984–85, the eight counties that serve 71 percent of the state's IHSS caseload added 78 percent of the new IHSS recipients, while the other 50 counties that serve 29 percent of the caseload added only 22 percent of the new recipients. If this trend continues, it will drive the caseload upward.
- ***A Portion of the Eligible Population (1) are Unserved and (2) May Demand Services in the Future.*** Table 6 shows that counties provide IHSS to between 7 and 22 percent of their SSI/SSP recipients. The difference in the percentage served may represent (1) variation in the distribution of the elderly and disabled population, (2) availability of alternative resources, and (3) an unmet need for IHSS services. To the degree that there is unmet need, SSI/SSP recipients who do not currently receive services may demand IHSS in the future.

SOCIAL SERVICES PROGRAMS—Continued

We are unable to identify an accurate assessment of the total statewide need for IHSS. In the *Perspectives and Issues,* we recommend that the Department of Aging estimate the need for various long-term care programs, including IHSS, and provide that information as part of their annual report to the Legislature.

Table 6

Counties Provide IHSS to Different Percentages of Their SSI/SSP Recipients

Counties	*Percentage of SSI/SSP Caseload Receiving IHSS* [a]
Highest Percentage	
Marin	22.3%
Amador	21.9
Glenn	21.2
Los Angeles	19.7
Santa Cruz	19.5
Lake	18.8
Tulare	18.2
Contra Costa	18.1
Fresno	18.1
STATEWIDE AVERAGE	16.0%
Lowest Percentage	
San Joaquin	10.0%
Sacramento	9.5
Colusa	9.5
Modoc	9.0
Imperial	8.9
Trinity	8.9
San Luis Obispo	8.7
Del Norte	8.0
Kern	7.8
Siskiyou	7.0

[a] Based on data from 1984–85.

Program Uniformity Is Necessary to Manage Growth. Although external factors create increased demand for services, it is program management that determines how efficiently the services are provided. Within broad state guidelines, the counties apply varied policies and standards for determining (1) the client's level of impairment and (2) the number of service hours that an individual will receive. As a result, the number of service hours awarded to clients with similar levels of impairment vary widely among counties. This variation not only results in inequitable treatment of recipients; it also leads to the inefficient use of funds. Establishing program uniformity therefore becomes more important as expenditures and the demand for services grow.

The data indicates that some IHSS recipients receive too many hours of service; and some receive too few, relative to other recipients. To the extent that some of these service hours can be shifted to more needy recipients, state and federal funds will be used more efficiently. In addition, to the extent that the program can identify clients with similar levels of impairment, it can more effectively target funds to those individuals who will benefit the most from IHSS services.

The department and the Legislature recently have taken several steps to promote program uniformity. Specifically, the Legislature required the department to prepare a report by March 1, 1986, that establishes (1) its objectives for achieving uniformity in the provision of IHSS and (2) an implementation schedule for achieving these objectives. The department informs us that the report will be submitted on schedule.

In addition, the department (1) implemented time-per-task standards statewide in three new areas (laundry, food shopping, and errands), beginning January 1986, (2) is implementing a new Case Management, Information, and Payrolling System (CMIPS) statewide that will provide an information base beginning in June 1986 for monitoring counties' assessment and service award practices, and (3) is preparing to demonstrate in Santa Cruz County, the use of a computer-assisted assessment program that is designed to produce more equitable awards. Three other counties have utilized the program, but it is now undergoing modifications so that it can be used in conjunction with CMIPS.

IHSS Deficits Reappear. For three years following the passage of SB 633, there were no funding deficits in the IHSS program. In 1984–85, however, as demand for services caused expenditures to climb, the department projected a $7 million deficit.

Although SB 633 provided a mechanism for counties to implement program reductions if projected costs exceeded their allocations, the department did not use this mechanism to deal with the shortfall in 1984–85. Instead, the Legislature enacted Ch 86/85 (AB 1470) in order to fully fund the projected deficit in 1984–85.

In addition to funding the counties' deficits, AB 1470 made various changes in the IHSS program in order to reduce the likelihood of future program deficits. Specifically it:

- Requires DSS to notify the counties of their allocations by July 31 of each fiscal year.
- Requires that within 30 days following the DSS notification, counties submit their plans to the department showing how they intend to keep their expenditures within the amount allocated.
- Requires counties that plan service reductions in order to keep within the amount of their allocations to specify in the plan which types of services will be reduced and which client groups will be affected by the reductions.
- Prohibits counties from making service reductions without the approval of the department.
- Requires each county to report on the expected impact of any new or expanded programs on the IHSS program.
- Requires the department to consider using the information reported by the counties to develop its annual budget request.

Despite implementation of AB 1470, the department currently projects a $23.3 million deficit in the IHSS program for 1985–86.

Department Increases County Match

We recommend that prior to budget hearings, the department report to the fiscal committees on (1) the basis for its decision to require the counties to pay a greater portion of IHSS program costs than what is specified in state law and (2) how it intends to address the problems created by increasing the county match.

Chapter 69, Statutes of 1981 (SB 633), requires counties to share in the costs of the IHSS program. That measure requires counties to pay 10 percent of the General Fund costs in excess of the expenditures for the IHSS program in 1980–81—$255.5 million. In both the current and budget years, the department proposes to require that the counties provide a match exceeding what SB 633 requires. Specifically, the department estimates that the counties will fund $20 million of the costs of the IHSS program in 1985–86 and $26.2 million of these costs in 1986–87. These amounts exceed what SB 633 requires by $4.8 million (32 percent) and $9.6 million (58 percent), respectively.

We do not know why the department proposes to increase the counties' share of costs above that required by state law. Our analysis indicates that this proposal could create funding problems for the IHSS program in the future. This is because it builds a potential deficit into the IHSS program for 1986–87. If the counties choose not to provide the additional $9.6 million, the IHSS program will be underfunded in 1986–87. Moreover, to the degree that the department continues to require a county match above the limit set by SB 633, counties will be unable to estimate their share of costs based on a matching *formula,* and budget their funds accordingly. During the current year, for example, the department's estimate of the counties' share of costs jumped from $12.8 million to $20 million.

With this in mind, we recommend that prior to budget hearings, the department advise the fiscal committees on (1) the basis for its decision to require that the counties exceed the matching amount established for the IHSS program by state law and (2) how it intends to address the problems that may result from increasing the county match.

Deficit Caused by Underfunding

We recommend that prior to budget hearings, the department advise the fiscal committees how it plans to limit the growth in hours per case as called for by the 1986–87 budget.

The budget projects that the average hours per IHSS case will increase by 2.5 percent between the current and budget years. This estimate assumes that hours of service per case will continue to increase until June 1986, at which time the average will flatten and remain level during 1986–87. (Because the department "flattens" the hours at the June 1986 level, the average for 1986–87 is 2.5 percent higher than the average for all of 1985–86.)

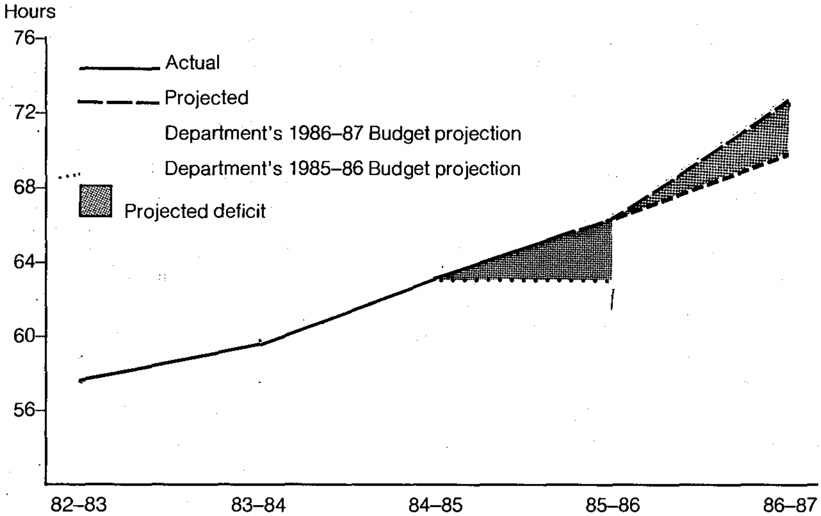
Our analysis indicates that the average hours per case may continue to increase at the same rate experienced during the past two years, or approximately 4.5 percent, for the following reasons:

- ***The Department Has Not Provided the Legislature With a Plan to Manage the Program Differently in 1986–87 Than How it Was Managed in 1985–86.*** As a result, we have no reason to believe that growth in hours will slow down during the budget year.

- ***The Percentage of Total Clients That Are Severely Impaired Is Increasing.*** These clients require over three times more hours per case than all other recipients.
- ***Data on Average Hours Per Case for the First Three Months of 1985–86, Indicate No Difference From Last Year's Pattern of Growth.***

The growth rate in 1986–87 could be higher or lower than what it has been in recent years, depending on what percentage of recipients (1) receive services from different provider modes (which vary in cost) and (2) are severely impaired and therefore receive a higher number of hours per case than those who are not severely impaired. Chart 3 shows that if the hours per case increase by 4.5 percent, this would result in a deficit of $9 million (all funds) in 1986–87. The chart also shows that in the current year, about $20 million of the projected $23.3 million deficit is due to the fact that the department failed to propose a budget that allowed for any growth in hours.

Chart 3
In-Home Supportive Services' Hours Per Case Are Increasing 1982–83 through 1986–87



We recommend that prior to budget hearings, the department report to the fiscal committees on how it plans to limit the growth in hours per case in 1986–87 consistent with the assumptions on which the budget is based.

Counties Should Match State Refugee Expenditures

We recommend that the Legislature reduce the General Fund appropriation by $610,000 in order to reflect the savings that will result from requiring the counties to match the General Fund allocation for IHSS services to refugees.

Currently, the counties are fully reimbursed by the state for the costs of providing IHSS to those refugees who (1) have been in the United States for less than 36 months and (2) receive services from individual providers. In 1986–87, the department proposes to allocate $6,098,000 from the General Fund to pay for IHSS services to these refugees. The department does not require the counties to match the General Fund costs of providing services to these IHSS recipients, even though SB 633 requires the counties to share in the costs of the program. Specifically, SB 633 requires counties to pay for 10 percent of all expenditures above $255.5 million which was the amount expended for the IHSS program in 1980–81, adjusted for several factors.

The federal government funds state programs that provide social services to refugees. In the past, the state used some of these funds to support the IHSS services it provided to refugees.

In 1984–85, the federal government restricted its payments to the states for social services like IHSS provided to refugees. As a result in 1986–87, less than $3 million in federal funds is available to pay for these refugee social services. The department has decided not to allocate any of these funds to the IHSS program. Instead, it is providing $6.1 million of state funds to pay for IHSS services to refugees.

Given the requirements of SB 633, the counties should be required to pay for 10 percent of the costs of providing IHSS services to refugees. The refugee costs are part of the basic program costs, and therefore should not be excluded from the county match required by state law. In addition, the current system is inequitable because it only provides 100 percent reimbursement for those refugees who receive services from individual providers (IPs). Counties currently are required to pay a 10 percent share of the costs for refugees who receive services from contract providers or county employees.

For these reasons, we recommend that the Legislature reduce the General Fund appropriation by $610,000 in order to reflect the savings that will result from requiring the counties to match the General Fund allocation for IHSS services to refugees.

Gatekeeper Estimate is Inaccurate

We withhold recommendation on $5,514,000 requested to fund the Gatekeeper program, pending receipt of (1) the May revision and (2) a revised methodology for distributing the Gatekeeper funds to counties.

Chapter 1637, Statutes of 1984 (AB 2226), required the Department of Health Services (DHS) to implement a preadmission screening program (referred to as the "Gatekeeper" program) in five of its field offices starting in 1984–85. The purpose of the program is to screen Medi-Cal recipients who are applicants for nursing home placement, in order to determine if such individuals could be more appropriately maintained in the community using home-based health and social services. Since 1984–85, DSS has attributed a portion of its total IHSS costs to the Gatekeeper program. These costs are based on the assumption that the Gatekeeper program increases the number of persons who are referred to IHSS. In 1986–87, the department estimates that the Gatekeeper program will result in General Fund costs of $5,514,000 to the IHSS program.

It is important to note that the IHSS costs which the department attributes to the Gatekeeper program *do not represent an increase* in the department's total estimate of program costs. Instead, the costs represent the department's estimate of what portion of existing IHSS program costs might be due to the Gatekeeper program.

Our review has identified problems with (1) the department's estimate for 1986–87 and (2) how the department allocates the Gatekeeper funds to counties.

First, the estimate of costs attributable to the Gatekeeper program is based on outdated and inaccurate information. Specifically, it assumes that the program will increase the IHSS caseload by 708 clients annually. This estimate is based on a pilot study conducted by DHS in 1983. Based on actual experience, however, the DHS has determined that the Gatekeeper program was responsible for only 36 new referrals to the IHSS program in 1984–85. Therefore, the department's estimate of the IHSS costs attributable to Gatekeeper in 1986–87 is not accurate.

Second, the department does not allocate the Gatekeeper funds to counties based on an estimate of how Gatekeeper affects individual counties. Instead, during the current year it will allocate unidentified portions of the $3.6 million in Gatekeeper funds to counties that have (1) a program deficit and (2) a Gatekeeper program. We do not know how it intends to allocate these funds in the budget year.

The department advises us that it will re-examine its methodology for determining the IHSS costs associated with the Gatekeeper program in preparing the May revision. The department further indicates that it plans to obtain new information about the impact of Gatekeeper on each county from its new Case Management, Information and Payrolling System (CMIPS).

Therefore, we withhold recommendation on $5,514,000 requested to fund the Gatekeeper program, pending receipt of (1) the May revision, which should include a revised estimate of the Gatekeeper program's impact on IHSS caseloads and (2) a revised methodology for distributing the Gatekeeper funds.

Facts About IHSS Service Providers Are Unknown

We recommend that the Legislature adopt supplemental report language requiring the department to submit a report by December 1, 1986, containing specified information regarding IHSS providers.

Currently, each county welfare department may choose to deliver services in one or a combination of the following three ways: (1) by individual providers hired directly by the recipients, (2) by private agencies under contract to the county, or (3) directly, by county employees. The department estimates that in 1986–87, individual providers (IP) will serve 81 percent of all IHSS recipients, private agencies will provide services to 18 percent of IHSS clients, and county employees will provide services to 1 percent of IHSS clients.

In California, most counties use the IP mode primarily because it is less costly than contracting with private agencies or using county staff to provide services. The state's reliance on the IP mode has allowed it to provide IHSS to an increasing number of recipients at a lower cost than

SOCIAL SERVICES PROGRAMS—Continued

that for contracting or using county staff. The department estimates that over 116,000 individuals will receive IHSS in 1986–87, at an average cost of approximately $4.00 per hour. The method used to provide services to IHSS recipients warrants the Legislature's attention. This is because the following questions have not been answered:

How Widespread Are Recipients' Provider Problems?

- When IHSS recipients have problems locating or keeping providers, county-employed social workers must spend their time resolving these problems. Some counties say this is a significant problem that requires a lot of social worker time. To the degree that the IP method creates work for county employees, the costs of this method are partially hidden. In contrast, when provider problems arise under the contract mode, the contractors, rather than the counties, bear the cost of resolving some of these problems.
- The department is unable to provide us with information regarding how frequently provider problems arise, how much time county employees spend resolving them, or how effectively county employees are able to resolve them. Therefore we do not know (1) how much these problems cost the county, (2) whether or not these are the kind of problems that contractors can address, or (3) whether or not the problems are serious enough to warrant a legislative solution.

Does the IP Mode Expose Counties or the State to Financial Liability?

- IPs generally (1) are not trained and (2) are supervised only by the recipients. It is not clear who would incur the financial liability in the event that an IP injured a client.

  The department informs us that the recipient is the IP's employer, and consequently is liable for the IP's actions. The courts, however, do not always agree with the department. In two recent cases, the courts have found that IHSS workers are the "employees" of (1) the state for purposes of workers' compensation coverage *(In-Home Supportive Services v. Workers' Compensation Appeals Board [1984],* and (2) the counties and the state for purposes of the minimum wage provisions of the Fair Labor Standards Act *(Bonnette v. California Health and Welfare Agency [9th Cir. 1983])*.

  Although these decisions do not determine liability for providers' actions, they do define the state, county, and recipient as co-employers of the IPs for some purposes. As a result, there is increasing concern about both county and state liability for the actions of the IPs when delivering services to clients.
- Counties are taking defensive action by evaluating their procedures for assisting recipients to locate their own providers. While some counties provide extensive assistance to clients in order to prevent the employment of incompetent IPs, other counties provide no assistance so as to avoid becoming identified as the IPs employers. State regulations require counties to "make a reasonable effort" to locate providers for recipients who are unable to find a provider. The regulations do not, however, specify what actions the counties must take.
- The department indicates that it does not know what kind of assistance the counties actually offer to recipients who are in need of a provider.

Which Provider Mode Is the Most Cost-Effective, and Results in Better Quality Services?

- Some individuals argue that the contract mode offers *higher quality* services than the IP mode because (1) the contract providers' work is supervised and (2) the contract providers are more professional because they receive training and many of them work full-time as providers. Others argue that the IP mode offers higher quality services because many IPs are relatives and friends of the recipients and therefore (1) they offer a "personal touch" and (2) they are willing to perform additional tasks that are needed by the client, but are not allowed by the IHSS social worker.
- Some observers also argue that the contract mode offers more *cost-effective* care because (1) the contractor supervises the providers, (2) the providers receive training and therefore are able to work more quickly than IPs and (3) the contractor handles employee problems, and therefore relieves the county-employed IHSS social worker of this responsibility. Other observers argue that IPs are more cost-effective because (1) they can be hired for less since the county avoids the overhead costs incurred when services are procured through a contract and (2) they may be more willing to provide additional services for free.
- The department indicates that it cannot determine which mode is actually more cost-effective, or which mode offers a higher quality of care.

Santa Cruz Demonstration Project. In order to answer some of these questions, the Legislature authorized a three-year demonstration project in Santa Cruz County to evaluate the *quality of care* and *cost effectiveness* of delivering services through a mixed contract and IP mode compared to an IP-only mode of service delivery. This demonstration project should answer the question: which provider mode is the most cost-effective and results in better quality of services? The second report on the project, issued December 1985, describes the comparative data that the project will provide, which includes information on (1) the cost of IHSS per case, (2) recipient satisfaction, and (3) whether or not the efficiency of contract providers results in a lesser number of service hours per client. Santa Cruz County will provide a preliminary analysis of the first available data to the department by April 1986, and the department will provide its annual report on the project to the Legislature by December 1986.

Unanswered Questions. The Santa Cruz demonstration project, hoewever, will *not* answer the question of how the provider system *is performing statewide.* For example, it will not determine (1) the costs and benefits of the three modes as the counties currently use them, (2) the extent of recipients' problems with locating providers, or (3) the kind of assistance counties currently provide to those in need of a provider. *Without this information, it will be difficult to determine how to improve the system, or how to apply the demonstration project's results statewide.* In order to "fix" the current system, the Legislature needs additional information on the extent to which the system is "broken."

Our analysis indicates that the department cannot provide the Legislature with the information that is needed to determine how IHSS services are delivered to clients. Specifically, we are unable to determine (1) the number of service providers in each mode, (2) the average provider wage for each mode in each county, (3) the screening and referral practices of each county, and (4) the extent of recipient problems with locating and retaining competent providers.

SOCIAL SERVICES PROGRAMS—Continued

To close this information gap, we recommend that the Legislature adopt the following supplemental report language:

"The Department of Social Services shall submit a report regarding IHSS providers to the Legislature by December 1, 1987, that includes the following information:

"1. The number of providers currently employed in each service delivery mode, including the number of IPs that are relatives or friends of recipients.

"2. The average provider wage for each service delivery mode in each county, including:

"a. The hourly cost of each service delivery contract.

"b. The cost of providing employee benefits to providers on a per capita basis.

"c. The total cost of IHSS contracts, and the number of recipients served by contract providers.

"3. The screening and referral practices of each county, including:

"a. An estimate of the time spent by social workers on these activities.

"b. Contractual agreements with private or public agencies for provider screening and referral.

"4. An evaluation of the extent of recipient problems with locating and retaining competent providers, according to measurable criteria, including:

"a. The amount of time between service authorization and provider start date.

"b. The provider turnover rate.

"c. The number of requests for services on an emergency basis.

"d. An estimate of the time spent by social workers on activities related to these recipient problems."

EMPLOYMENT PROGRAMS FOR AFDC RECIPIENTS

Chapter 1025, Statutes of 1985, created the Greater Avenues for Independence (GAIN) program. The purpose of this program is to provide employment and training services to Aid to Families with Dependent Children (AFDC) recipients in order to help them find employment and to become financially independent. Chapter 1025 allows counties a three-year period to phase in the program. The department anticipates that some counties will begin providing services under the GAIN program in late 1985–86 or early 1986–87, and that other counties will wait one or two years to begin providing services.

Once the GAIN program is fully operational on a statewide basis, county welfare departments will provide a range of Job Search, Training, and Work program services to mandatory GAIN participants and to any AFDC recipients who volunteer to participate in GAIN. Specifically, the following services will be available to GAIN participants:

- ***Registration.*** Counties will register mandatory and voluntary participants. Based on the information collected at the time of registration, counties will determine which additional services to provide to the participant.
- ***Remedial Education.*** Counties are required to refer every GAIN participant who lacks a high school diploma or basic literacy or math-

ematics skills, or the ability to speak English, to remedial educational services such as English as a second language and high school equivalency instruction.

- ***Job Club.*** Counties will offer Job Club as one of the services available under GAIN. Job Club includes (1) Job Search workshops, which consist of group training in job-finding skills, followed by (2) supervised Job Search, which consists of participants using telephones (and other methods) to look for work.
- ***Assessment.*** Participants who have been on aid more than twice during the three years preceding their most recent application for aid will be referred immediately to assessment. Other participants will be referred to assessment if they remain in the program after going through Job Club or Job Search. The purpose of the assessment is to determine what kinds of services the participant will need in order to achieve his or her employment goal.
- ***Short-Term Training.*** Based on the results of the assessment, participants will be referred to one of several short-term training programs or to unsupervised Job Search. Chapter 1025 requires large counties to provide all of the following short-term training programs (small counties can request the state to exempt them from having to provide one or more of these programs):
  - ***Short-Term Preemployment Preparation (PREP).*** Participants in Short-Term PREP will work for a public or nonprofit organization, for up to three months, in order to learn work behavior skills (basic PREP) or to enhance existing skills (advanced PREP). Participants will be required to work up to the number of hours per month that they would have to work to earn the amount of the AFDC grant, plus the value of their food stamp allotment, assuming an hourly wage equal to the average hourly wage of job orders placed by the Employment Development Department (EDD).
  - ***On-the-Job Training (OJT).*** Participants in OJT will work at a starting wage, for a private or public employer while they receive training.
  - ***Vocational Training.*** Participants in Vocational Training would be trained in specific occupational skills.
  - ***Grant Diversion.*** Participants in Grant Diversion will work for public or private employers and receive a wage comparable to what other employees of the company or agency receive. The employer will receive all or a portion of the recipient's cash grant as a wage subsidy.
  - ***Supported Work.*** Supported Work is a form of Grant Diversion in which a service provider (such as a private nonprofit organization) receives all or part of the recipient's grant and, in return, provides services such as day care, counseling, money management, etc., to help the recipient maintain a subsidized or unsubsidized job.
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  - ***Long-Term PREP.*** Participants that remain in the GAIN program after going through short-term training will be referred to Long-Term PREP. Long-Term PREP is simply an extended form of the Short-Term PREP program described above. Participants will be referred to Long-Term PREP for one year, but will be reassessed every six months.

Prior to the statewide implementation of the GAIN program, counties will continue to provide employment services to AFDC recipients under one or more of the following existing programs:

SOCIAL SERVICES PROGRAMS—Continued

- *Employment Preparation Program (EPP).* In six counties AFDC recipients receive two to three weeks of job club or other employment services under the EPP.
- *Work Incentive Demonstration (Win-Demo) Program.* AFDC recipients in 26 counties receive three days of job club under the Win-Demo program. Some Win-Demo participants also receive training and employment placement services upon completion of job club.
- *Experimental Work Experience Program (EWEP).* Recipients in San Diego receive a variety of employment and training services under the EWEP.

Budget Proposal

The budget proposes spending $124,761,000 ($32,496,000 General Fund, $91,302,000 federal funds, and $963,000 county funds) for employment-related services provided to AFDC recipients in 1986–87. Of the total amount proposed, $45,100,000 ($22,550,000 General Fund and $22,550,000 federal funds) would be used to reimburse counties for the costs of providing employment-related services to AFDC recipients under the GAIN program. The remaining $79,661,000 ($9,946,000 General Fund), $68,752,000 federal funds and $963,000 county funds) would fund the costs of the EPP, Win-Demo, and EWEP programs.

Budget Proposal Is Based on an Out-of-Date Estimate

We withhold recommendation on the $45,100,000 ($22,550,000 General Fund and $22,550,000 federal funds) proposed for the GAIN program, pending receipt of an updated estimate.

The $45.1 million proposed for the GAIN program during 1986–87 is based on (1) the department's estimate of the costs of the program once it is fully operational on a statewide basis and (2) the department's assumptions regarding the portion of the state's total AFDC caseload that will be covered by the GAIN program during 1986–87. Table 7 shows that once the GAIN program is fully implemented, the department expects that it will result in *additional* annual costs of $158.0 million. (These funds are in addition to *existing* resources, totaling $146.0 million, which the department believes will be available to support the program.)

The annual costs of the program during the next few years will be substantially less than what is shown in Table 7 for 1990–91 because the program will be phased in over a three-year period. Consequently, the amount proposed in the budget assumes that the counties implementing GAIN during 1986–87 will account for roughly one-third of the statewide AFDC caseload.

We have several concerns regarding the department's estimate of (1) the costs of the GAIN program in 1986–87 and (2) the ultimate costs of the program once it is fully operational on a statewide basis.

Table 7
DSS Estimate of Costs Associated With the Gain Program 1986–87 and Ongoing Costs Once Implementation Is Complete (dollars in millions)

	1986–87			1990–91		
Program Component	*DSS Costs*	*Costs to Other Programs*	*Totals*	*DSS Costs*	*Costs to Other Programs*	*Totals*
Registration/Orientation	$1.2	—	$1.2	$1.2	—	$1.2
Remedial Education	5.6	—	5.6	15.6	—	15.6
Job Club	43.3	—	43.3	46.1	—	46.1
Assessment	7.4	—	7.4	15.6	—	15.6
Short-Term Training	22.7	$32.3	55	64.4	83.5	147.9
90-Day Job Search	0.8	—	0.8	3.2	—	3.2
Long-Term PREP	12.4	—	12.4	70.6	—	70.6
Transitional Child Care	0.7	—	0.7	2.3	—	2.3
State Administrative Costs [a]	1.5	—	1.5	1.5	—	1.5
Subtotals	$95.60	$32.30	$127.90	$220.50	$83.50	$304.00
Resources available from existing programs	($49.0)	($32.3)	($81.3)	($62.5)	($83.5)	($146.0)
Net new costs	$46.6	—	$46.6	$158.0	—	$158.0

[a] Includes costs for marketing. These costs are budgeted under the department's support item, Item 5180-001-001.
Source: DSS

The Estimate is Out-of-Date. The department's estimate was prepared during the summer of 1985, while AB 2580 was moving through the Legislature. This estimate has long been out-of-date. For example, the estimate assumes that some counties began implementing the GAIN program on January 1, 1986. This, however, did not occur. In fact, the department advises that few, if any, counties will actually begin providing services under the GAIN program prior to July 1986. As a result, we estimate that the costs of the GAIN program in 1986–87 will be reduced by $15.0 million ($7.5 million General Fund and $7.5 million federal funds). This reflects the fact that, due to the later start-up date, fewer participants will reach the relatively more expensive program components (for example, short-term training and long-term PREP) during the budget year.

The Estimate Does Not Reflect AB 2580 as Enacted by the Legislature. The estimate used in the budget was based on the August 26, 1985, version of AB 2580. Subsequently, the Legislature made several significant changes to the program which are not taken into account in the estimate used in the budget. For example, the department's estimate assumes that 15 percent of the AFDC recipients who enter the GAIN program will be immediately diverted to remedial education programs to receive high school equivalency training or instruction in English as a second language (ESL). As enacted, however, Chapter 1025 requires that *all* GAIN participants who do not have a high school diploma or basic literacy or mathematical skills be diverted to remedial education programs.

While we cannot estimate the fiscal effect of this and other changes, it is likely to be substantial. In fact, we note that the department believes 60 percent of all GAIN participants will meet the criteria contained in Chapter 1025 for mandatory referral to remedial education programs. The estimate used in preparing the budget assumed that only 15 percent of the caseload would meet these criteria.

SOCIAL SERVICES PROGRAMS—Continued

Major Assumptions in the Estimate Will Change When the Department Has Had an Opportunity to Review County Plans. Chapter 1025 allows individual counties a great deal of discretion in determining how services will be delivered under the GAIN program. For example, counties can decide which services to provide with county staff and which to provide through contracts with private service providers or with governmental entities (such as the community colleges, EDD, and the local JTPA private industry councils). These decisions have cost implications that can be determined only through a review of individual county's GAIN plans. Moreover, the county plans will address the specific service needs of GAIN participants and the service resources already available to participants. Thus, the current estimate is apt to change substantially, once the department has had an opportunity to review the county plans. It is important to note that these changes will affect not only the estimated costs of the program in 1986–87 but the full implementation costs as well.

The Estimate Is Technically Flawed. Our analysis has identified several technical flaws in the department's estimate of the 1986–87 costs of the program. The department acknowledges these technical problems and indicates that it will correct them in time for the May revision.

For these reasons, the Legislature cannot rely on the budget estimate of GAIN-related costs in deciding how much should be appropriated for the GAIN program in 1986–87. We therefore withhold recommendation on the $45,100,000 ($22,550,000 General Fund and $22,550,000 federal funds) proposed for support of the GAIN program in 1986–87, pending receipt of an updated estimate that reflects the legislation as enacted as well as the county plans that are submitted in early 1986.

The Affect of the GAIN Program on Other State-Administered Programs Could Be Substantial

We recommend that the department advise the fiscal committees what effect the GAIN program will have on other state programs.

The GAIN program will affect several state programs other than those administered by the DSS. It will affect enrollments in the community colleges, the adult education program, the regional occupational centers and programs (ROC/P), the Job Training Partnership Act (JTPA) Program, the child care resources and referral (R and Rs) centers, and the Employment Development Department (EDD).

The Legislature will need reliable and up-to-date estimates of these effects before it acts on the budget for 1986–87. To date, however, this information has not been provided. For example, although the department indicates that GAIN ultimately will refer 6,200 participants to community colleges, it does not indicate (1) the types or duration of the services that these participants will need or (2) which community college districts will be affected in 1986–87. It should be possible for the department to provide this information once it has (1) reviewed the plans of those counties that will implement the program in 1986–87 and (2) reestimated the basic caseloads under the GAIN program. Accordingly, we recommend that at the time of the May revision, the department advise the fiscal committees what impact GAIN will have on other state programs. In particular, the department should provide the following information:

1. The number of GAIN participants that will be referred to community colleges in 1986–87 and in the first full-year of statewide implementation (1990–91), and the types and duration of services that these participants

will require. The estimate should also specify which districts are likely to be affected in 1986–87.

2. The number of GAIN participants that will be referred to the adult education and ROC/P programs in 1986–87 and 1990–91, and the types and duration of services that these participants will require. The estimate should also specify which local ROC/Ps will be affected in 1986–87.

3. The number of GAIN participants that will be referred to the JTPA program in 1986–87 and 1990–91, and an estimate of the types and duration of services that these participants will require. The estimate should also identify the service delivery areas that will be affected in 1986–87.

4. The number of GAIN participants that will be referred to R and Rs in 1986–87 and 1990–91, and the number of these participants that will need referral to local child care providers. The estimate should also identify the R and Rs that will be affected in 1986–87.

5. The number of GAIN participants that will participate in job clubs conducted by the EDD and the number that will be referred to the Job Agent and Service Center programs in 1986–87 and 1990–91. The estimate should also specify which counties will contract with the EDD to provide GAIN services in 1986–87.

Budget Proposal Could Leave SDE Holding the Bag

We recommend that prior to budget hearings, the Department of Finance report to the fiscal committees on the administration's progress in developing the accounting procedures that will be needed to claim federal reimbursement for state-subsidized day care costs. We withhold recommendation on $31 million in federal funds which are requested to reimburse the SDE, pending receipt of this report.

The budget proposes to use $31 million in federal funds to reimburse the State Department of Education (SDE) for its costs of providing day care services to the children of AFDC recipients. This proposal assumes that (1) the SDE will spend a total of $62 million during 1986–87 to provide day care services to AFDC recipients and (2) the federal government will fund 50 percent, or $31 million, of the costs of providing these services. Based on these assumptions, the Department of Finance proposes to reduce the amount budgeted from the General Fund to support SDE's subsidized child care program by $31 million.

We have two major concerns regarding the Department of Finance's estimate:

- ***The Department of Finance Estimate Overstates the Amount of Federal Funds That Will be Available to Offset General Fund Costs.*** The estimate assumes that all AFDC recipients who currently receive state-subsidized day care will be eligible for federal financial participation. In our judgment, this is highly unlikely. The federal government will pay for only (1) the day care costs to participants in approved employment programs and (2) the hours of care that are needed according to federal rules. It is all but certain that some AFDC recipients receiving state-subsidized day care will not be participants in approved employment programs. In addition, the rules for determining hours of care used by the SDE are more generous than the federal rules. For example, the SDE subsidizes day care during the hours needed for studying, while the federal government does not.

  Accordingly, it is likely that some of the $62 million which the SDE is expected to spend for child care on behalf of AFDC families *will not* qualify for federal funding.

SOCIAL SERVICES PROGRAMS—Continued

- ***The Department of Finance Estimate Assumes That the DSS and SDE Can Develop Accounting and Claiming Procedures That Will Identify Costs That Are Eligible for Federal Funding.*** In order to claim federal reimbursements for a portion of SDE's costs, the DSS will have to provide the federal government with documentation that the costs are eligible for federal support. According to the federal government's current accounting standards, this will involve setting up an "audit trail" for *each program participant* in order to verify (1) the participant's eligibility, (2) the appropriateness, under federal rules, of the amount of day care provided, and (3) the reasonableness of the cost of care provided. The DSS currently has accounting procedures in place that track participant eligibility. The SDE advises, however, that it would have a hard time implementing the accounting procedures needed to track the last two criteria.

  The two departments are exploring the options available for satisfying the federal claiming procedures. Until an acceptable claiming process is in place, however, the state will *not* be able to receive federal reimbursement for these costs.

It is important to note, that there *is* probably a substantial amount of federal money that can be used to fund subsidized child care services. In fact, it is possible that the state could begin claiming federal reimbursements for SDE's costs during the current year *if the two departments can develop the appropriate accounting procedures soon enough.* Therefore, we recommend that prior to budget hearings, the Department of Finance report to the fiscal committees on the administration's progress in developing the accounting procedures needed to claim federal reimbursements for the costs of state-subsidized child care provided to AFDC recipients. We withhold recommendation on the $31 million in federal funds requested to reimburse the SDE, pending receipt of this report.

The Department of Finance has reduced the General Fund appropriation to the SDE by $31 million and has added $31 million in reimbursements from the DSS. To the extent that the Department of Finance's estimate of the federal funds available for this purpose is too high—and we believe there is good reason to conclude that this is the case—the DSS will not be able to reimburse the SDE for the full $31 million. Should this occur, SDE will incur a deficiency in its state-subsidized day care programs. (Please see our discussion of Child Care Programs in Item 6100-196-001.)

Funds Appropriated by Chapter 1025 Will Be Available for Reappropriation in 1986–87

We recommend that the Legislature (1) add an item to the Budget Bill which reappropriates $3,950,000 available under Chapter 1025 and (2) reduce the amount requested from the General Fund to support the GAIN program by $3,950,000 in 1986–87 in order to reflect the availability of the amount reappropriated from Chapter 1025.

Chapter 1025 appropriated $15.8 million ($7.9 million General Fund and $7.9 million federal funds) for the GAIN program in 1985–86. This appropriation was based on the department's assumption that counties would begin implementing the GAIN program on January 1, 1986.

The department now advises that few, if any, counties will begin providing services to GAIN participants prior to July 1, 1986. This is primarily due to the fact that counties must prepare a detailed GAIN plan, which must be approved by the department before they can actually implement the program.

Our analysis indicates that the department will spend only $7.9 million of the $15.8 million appropriated by Chapter 1025 for the costs of the GAIN program in the current year. This consists of:

- $5.2 million which the department indicates it will allocate to counties to support the preparation of GAIN plans;
- $1.5 million to cover the department's administrative costs; and
- up to $1.2 million for services provided to GAIN clients by those four counties that we believe *could* implement the program beginning in late 1985–86.

This means that $7.9 million ($3.95 million General Fund and $3.95 million federal funds) will remain unexpended at the end of 1985–86.

We recommend that the Legislature reappropriate these funds for the GAIN program in 1986–87. This would make available $3,950,000 in General Fund monies for the Legislature's use in achieving its priorities.

The following Budget Bill language is consistent with this recommendation:

"5180-890—Reappropriation, Department of Social Services. As of June 30, 1986, the unexpended balance of the appropriation made for the GAIN program by Chapter 1025, Statutes of 1985, is hereby appropriated for transfer to the item and in the amount as follows: in augmentation of Item 5180-151-001, $3,950,000."

Double-Budgeting for the Costs of Employment Services Provided to Refugees

We withhold recommendation on $37,705,000 in federal funds proposed for refugee social services, pending a determination of whether these funds are budgeted twice.

The budget requests $37,705,000 in federal Refugee Resettlement Program (RRP) and Targeted Assistance Program (TAP) funds to provide social services to refugees. Of the total amount proposed, $2.5 million will be spent to provide nonemployment-related social services to refugees (for example, child welfare services to refugee families). The remaining $35.2 million will be used to provide employment and training services to refugees.

These employment and training services will be provided to refugees who come within one of the following categories:

- Refugees who are participating in the Refugee Demonstration Program (RDP).
- Refugees who are receiving general assistance or are participating in the Refugee Cash Assistance (RCA) program.
- Refugees who are not receiving public assistance.
- Refugees who are receiving AFDC benefits.

The department is unable to provide us with an estimate of the amount of federal RRP and TAP funds that counties and service providers will spend for AFDC refugees in 1986–87. The department advises, however, that a substantial portion of these funds will be used to provide employment-related services to these individuals.

To the extent that RRP and TAP funds are used for the cost of employment-related services provided to AFDC refugees in counties that implement the GAIN program in 1986–87, funding for these services is double-budgeted. This is because the budget contains funds to provide services to GAIN participants, including refugees, in 1986–87.

SOCIAL SERVICES PROGRAMS—Continued

According to the department's caseload projections, AFDC refugees make up 8.6 percent of the total AFDC caseload. Based on this, we estimate that approximately $3.9 million ($1.95 million General Fund and $1.95 million federal funds), of the $45.1 million proposed for the GAIN program in 1986–87 will be spent for services to AFDC refugees. To the extent that some of the *federal* RRP and TAP funds proposed in the budget are used to provide services to these same AFDC refugees, a portion of the $3.9 million of General Fund and federal fund monies proposed to provide GAIN services to AFDC refugees will not be needed.

Because the department does not keep track of how much RRP and TAP funds are spent on services to refugees in each of the four categories described above, we cannot provide the Legislature with an estimate of the extent to which funds for employment services to AFDC refugees are double-budgeted. The department should be able to shed light on this matter when it reviews the GAIN plans that counties will submit in the spring. We, therefore, withhold recommendation on $37,705,000 in federal funds proposed for refugee social services, pending a determination of the extent to which these funds are double-budgeted.

GAIN Could Result in Unintended Overhead Cost Shifts

We recommend that the Legislature adopt Budget Bill language directing the department to eliminate, or minimize, the likelihood that implementation of the GAIN program will result in unintended overhead cost shifts.

Chapter 1025 allows counties broad discretion in administering the GAIN program. In particular, the counties can provide services to participants through contracts, using county staff, or some combination of these approaches. For example, counties could provide job club services (1) through contracts with the EDD, (2) through contracts with private agencies, (3) by hiring additional county staff to conduct the workshops, or (4) by hiring county staff to conduct the workshops jointly with a contract provider who would also provide workshop staff (the latter arrangement reflects the way counties and the EDD currently provide job club services in some EPP counties).

Our analysis indicates that the way counties deliver services under the GAIN program could result in administrative costs being shifted to the state from the counties or from the counties to the state. For example, under current law, administrative costs are allocated among the AFDC, Medi-Cal, Social Services, Food Stamps, county General Assistance, and other programs based on a cost allocation plan. Under this plan, the counties identify the costs of salaries and benefits paid to those county employees who *directly* provide services to the clients of the various programs. (These employees include eligibility and social workers.) The administrative overhead costs are then allocated to each program, based on the program's share of total costs incurred by the welfare departments for employees that provide direct services to clients. (These overhead costs include the costs of salaries and benefits of administrative and support staff, as well as such operating costs as rent, utilities, supplies, and equipment.) The purpose of the cost allocation plan is to ensure that each program pays for its appropriate share of the costs of operating the welfare department.

It is important to keep track of these costs on a program-by-program basis because each program is funded differently. For example, the costs of administering the AFDC program are shared between the state (25 percent), federal (50 percent), and county (25 percent) governments. The Medi-Cal program, on the other hand, is paid for by the state (50 percent) and federal (50 percent) governments only. Obviously, if part of the administrative costs properly attributable to the Medi-Cal program is allocated to the AFDC program, counties would pay more than their fair-share of these costs. The cost allocation plan is designed to avoid such unintended cost shifts.

Chapter 1025 sets the cost-sharing ratio for the GAIN program at 50 percent state and 50 percent federal; counties do not share in these costs. Because of the way the cost allocation plan works, however, it is possible that a county which chooses to provide most of the services required under Chapter 1025 through contractual arrangements with service providers, could actually end up paying for a substantial share of the overhead associated with the GAIN program. This would occur because under a county plan calling for services to be provided primarily by contractors, the county would hire few if any additional county staff to provide services to participants *directly*. The county, however, would have to hire administrative staff to supervise and evaluate the contractor and to account for program expenditures and results.

The effect of a county hiring relatively few line workers and at the same time incurring relatively high administrative cost, would be to increase the amount of administrative costs allocated to other programs, including those programs which the counties help pay for. In a large county, this could increase *county-funded* welfare department costs by more than $100,000, even though counties are not supposed to pay a share of GAIN program costs.

The cost shift could also go in the other direction, putting the state at a disadvantage. If, for example, a county chooses to hire a relatively large number of new direct line staff to provide services through the GAIN program, this could shift costs from programs such as AFDC to the GAIN program, causing the state to, in effect, pay more for AFDC and allowing the counties to pay less.

The department is aware of the potential for unintended overhead cost shifts to occur when the GAIN program is implemented. The department advises that it will develop a policy for avoiding these shifts. To assure that this happens, we recommend that the Legislature adopt the following Budget Bill language directing the DSS to implement its cost allocation plan in such a way as to eliminate or minimize the potential for unintended overhead cost shifts:

> "In administering the cost allocation plan for 1986–87, and in reviewing and approving county GAIN plans submitted during 1986–87, the DSS shall ensure that no significant overhead cost shifts occur as a result of the implementation of the GAIN program."

County GAIN Plans Have Out-Year Fiscal Implications

We recommend that the Legislature adopt Budget Bill language requiring the DSS to compare each county plan with the department's statewide cost estimate and, in the event that the plan implies higher-than-anticipated costs (1) notify the Chairpersons of the fiscal committees in each house and (2) advise the county that final approval of its plan is subject to review by the Legislature as part of the 1987–88 budget process.

As we noted above, Chapter 1025 provides for a three-year phase-in of the GAIN program. The department estimates that, even after all counties

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have implemented the program, it will take an additional two years to fully implement the various program components. This is due to two factors: (1) some recipients will remain in the program for an extended period of time and may not reach the "tail-end" long-term PREP component until they have been in the GAIN program for a year or more and (2) some counties may not require every mandatory participant to enter GAIN immediately—they may wait for up to two years after implementation to bring all of the mandatory recipients into the GAIN program.

The department estimates that the counties which implement the GAIN program in 1986–87 will account for one-third of the statewide caseload and will spend $45,100,000 to provide GAIN services. This represents approximately 28 percent of what the department anticipates all 58 counties will spend for the program once it is fully operational on a statewide basis. (The 1986–87 costs of the GAIN program are expected to be less than one-third of the ongoing costs primarily because of the lag between the time when a participant enters the program and the time when the participant reaches the relatively more expensive "tail-end" components such as short-term training and long term PREP.)

The fact that the GAIN program will be phased-in over a three-year period, and that the costs will be phased-in over a five-year period, raises issues that are not usually relevant to legislative decision making in social welfare programs—issues which are more common in capital outlay programs. Frequently, the Legislature is requested to appropriate a relatively small amount of money in the budget for capital outlay programs, recognizing that this represents a much larger commitment of funds in subsequent years. For example, a particular project may involve a contract for work in the budget year costing $1 million. Funding this contract, however, may commit the Legislature to the entire project, which may cost several tens of millions of dollars to complete over several years.

This is similar to the situation presented by implementation of the GAIN program. According to the department's estimate, the GAIN program will cost $45.1 million in 1986–87, but its yearly cost will be $156.5 million (excluding state administrative costs) when the program is fully phased in. Thus, there is a need for more legislative oversight than is common when a new social welfare program is launched.

Accordingly, we suggest that the Legislature establish guidelines for the department to follow in the event that the initial county plans prove to be more costly than anticipated. The purpose of such guidelines would be to ensure that the *decisions* made by the department on proposed county GAIN plans during 1986–87 do not foreclose the *Legislature's options* with respect to the long-term costs of the GAIN program.

Specifically, we recommend that the Legislature adopt the following Budget Bill language directing DSS to (1) compare each county plan with its statewide cost estimate and (2) in the event the plan implies a higher-than-anticipated cost (given the size of the county involved relative to the state's total AFDC caseload), notify the Chairpersons of the fiscal committees of each house and inform the county in writing that the approval of its plan is subject to legislative review as part of the budget process for 1987–88:

"The Department of Social Services shall compare the costs of each county's proposed GAIN plan with the department's estimate of the statewide costs of the GAIN program. If the department approves any county plan which has a cost in excess of what would be expected for a county with a caseload of comparable size, based on the department's statewide estimate, the department shall (1) so notify the Chairpersons of the fiscal committee of each house and (2) notify the county that the *final* approval of its plan is subject to legislative review as part of the 1987–88 budget process."

EDD's Role in the GAIN Program is Unclear

We recommend the Legislature adopt supplemental report language directing the EDD and the DSS to advise counties that EDD is available as a resource for counties to use, on a contractual basis, to provide services under the GAIN program.

The EDD currently provides a variety of employment services that are similar to several of the services that will be provided under the GAIN program. Specifically, EDD staff (1) conduct job search workshops in conjunction with several county welfare departments under the EPP and Win-Demo programs, (2) assess the employability and training needs of AFDC recipients under the EPP and Win-Demo programs, (3) provide intensive employability and placement services to AFDC recipients and other individuals under the Job Agent and Service Center programs, and (4) place AFDC recipients and other individuals in employment through the Employment Services program.

Chapter 1025 allows counties to contract with EDD to provide services to GAIN participants. The measure also requires counties to provide services under the GAIN program in a cost-effective manner. For some counties, contracting with EDD *may* represent the most cost-effective alternative for providing some of these services. The administration, however, seems to be sending mixed signals to counties regarding the availability of EDD staff to provide GAIN services.

For example, in a letter sent to all county welfare departments, dated September 27, 1985, DSS stated that "we would encourage you to consider assuming the activities that are now performed by EDD under the Win-Demo program as part of your (GAIN) implementation effort." Morever, representatives of the DSS and the EDD have advised counties on several occasions that the EDD will *not* be available in the future as a resource for counties to use in implementing the GAIN program.

On the other hand, DSS has advised us that it encourages counties to consider contracting with the EDD, as one of several alternatives for providing these services under the GAIN program. In addition, EDD has advised us that "during implementation (of GAIN), EDD anticipates being involved in job search workshops for AFDC recipients either in a technical assistance capacity or providing specific services under interagency agreements."

In view of these conflicting statements, we are uncertain as to what the administration's policy is with respect to EDD's future role in the GAIN program. One thing *is* clear, however: if the counties believe that EDD will not be available to provide services, they are unlikely to consider contracting with EDD as an alternative means of providing services.

Given the uncertainty regarding EDD's role, we believe the Legislature should make clear that if the EDD represents a cost-effective alternative for providing services under the GAIN program, this alternative is available to the counties. We, therefore, recommend that the Legislature adopt the following supplemental report language directing (1) DSS to issue an all-county letter stating that EDD is available to provide services to GAIN

SOCIAL SERVICES PROGRAMS—Continued

recipients pursuant to contracts entered into with the counties and (2) EDD to provide (a) a description of the services it can provide, (b) a price list for those services, and (c) a list of the provisions that must be included in any contract with the EDD for the provision of each of the services.

"The Department of Social Services shall issue an all-county letter, by July 15, 1986, stating that the EDD is available to provide services to GAIN participants, on a contractual basis. The letter shall include a statement, which the EDD shall prepare by July 10, 1986, laying out (1) the types of services that the EDD can provide, (2) the price that EDD will charge the counties for those services, and (3) the conditions under which the EDD will provide the services."

Department of Social Services
COMMUNITY CARE LICENSING

Item 5180-161 from the General Fund and Federal Trust Fund — Budget p. HW 160

Requested 1986–87	$8,342,000
Estimated 1985–86	8,342,000
Actual 1984–85	7,085,000
Requested increase—None	
Total recommended reduction	None
Recommendation pending	8,342,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-161-001—Community Care Licensing	General	$8,342,000
5180-161-890—Community Care Licensing	Federal	(2,856,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Proposed Program Expenditures. We withhold recommendation on funds requested for Community Care Licensing, pending receipt of a workload standard study. 1001

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. 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 home 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 an appropriation of $8,342,000 from the General Fund to reimburse counties for licensing activities in 1986–87. The only funding change proposed for community care licensing in 1986–87 is continuation of the $1.0 million appropriation added by the Legislature in 1985–86 for use in recruiting foster family home providers.

ANALYSIS AND RECOMMENDATIONS

No Workload Standard for Licensing Activities

We withhold recommendation on funds requested for Community Care Licensing activities because the department has no workload standard upon which to base its budget request.

In general, the costs of the Community Care Licensing program are determined by two factors: (1) the number of community care facilities to be licensed or reviewed and (2) the number of staff needed to perform the various licensing functions. The number of facilities to be licensed or reviewed is estimated based on historical trends and current caseload. The number of staff needed to perform these licensing functions is determined by applying a "workload standard" to the estimated caseload. The workload standard is the average number of facilities that a license evaluator is able to review.

We conclude that the budget proposal for the Community Care Licensing program may not be appropriate since it is not based on the most recent estimate of staffing needed to carry out the functions of the program. During the subcommittee hearings on the 1985 Budget Bill, the department advised the Legislature that by July 1985 it would revise its workload standard. At the time we prepared this analysis, the department still had not completed these revisions. It indicated that the revised licensing workload standard will be completed by April 1986 and will be applied in 1986–87.

Because the department's budget is not based on the most recent estimate of the number of staff required to license facilities, we withhold recommendation on funds requested for the Community Care Licensing program, pending receipt of the new workload standard.

Department of Social Services
COST-OF-LIVING ADJUSTMENTS

Item 5180-181 from the General Fund and Federal Trust Fund — Budget p. HW 163

Requested 1986–87 .... $186,034,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-181-001—Cost-of-living adjustments	General	$186,034,000
5180-181-890—Cost-of-living adjustments	Federal	(96,993,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Child Welfare Services COLA. Recommend that the Legislature adopt Budget Bill language specifying that the $31,611,000 appropriated for prior-year county-granted COLAs for the Child Welfare Services program be matched by the required county share of $8,225,000. 1004
2. Adoptions Prior-Year COLA. Recommend that the Department of Finance report, prior to budget hearings, on how the administration intends to fund the state's share of the full costs of the Adoptions program. 1005

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation to provide cost-of-living adjustments (COLAs) to various welfare and social services programs. In general, this item provides funds to compensate for the effects of inflation on the purchasing power of grants to welfare recipients.

In accordance with the policy established by the Legislature in previous budget acts, the state will fund its share of COLAs granted to county welfare department employees one year in arrears (referred to as "retroactive" COLAs). Thus, the budget proposes to fund in 1986–87, the General Fund costs of COLAs granted to county welfare department employees in *1985–86*. (These funds are appropriated in Items 5180-141-001 and 5180-151-001.) For COLAs granted by counties in 1986–87, the state will fund its share of the costs beginning in 1987–88.

OVERVIEW OF THE BUDGET REQUEST

Statutory COLAs for Welfare Recipients

The budget proposes a General Fund appropriation of $186,034,000 to fund those cost-of-living increases that are required by state law. Specifically, current law requires that Aid to Families with Dependent Children (AFDC) grants, Supplemental Security Income/State Supplementary Program (SSI/SSP) grants, and the maximum service award under the In-Home Supportive Services (IHSS) program be adjusted to reflect the yearly increases in the California Necessities Index (CNI). The Commission on State Finance is the state agency responsible for estimating the change in the CNI. The amounts proposed for statutory COLAs are as follows:

- ***AFDC Cash Grants.*** The budget proposes to provide a 4.9 percent COLA to AFDC cash grants, effective July 1, 1986, at a cost of $185,041,000 ($80,678,000 General Fund, $94,594,000 federal funds, and $9,769,000 county funds).
- ***SSI/SSP.*** The budget proposes to provide a 4.9 percent COLA for SSI/SSP recipients, effective January 1, 1987, at a cost of $104,958,000 ($104,732,000 General Fund and $226,000 federal funds).
- ***IHSS Statutory Maximum.*** The budget proposes to provide a 4.9 percent COLA to the *maximum* amount of service that each IHSS recipient is allowed by statute, at a cost of $693,000 ($624,000 General Fund, $69,000 county funds). As a result, approximately one percent of IHSS recipients will be allowed to receive an increase in their maximum hours of service.

ANALYSIS AND RECOMMENDATIONS

Retroactive COLAs

The department administers three programs which receive retroactive COLAs—the county welfare department administration of the AFDC, Food Stamps, and Child Welfare Services (CWS) programs. The state pays for its share of the COLAs granted by counties to the employees assigned to these programs one year in arrears. The budget includes funds for these retroactive COLAs as follows:

- ***County Administration of AFDC and Food Stamps Programs.*** The budget proposes an appropriation of $8,823,000 from the General Fund to pay for the cost of COLAs granted by counties in 1985–86 to eligibility determination staff who are assigned to the AFDC and Food Stamps programs. The budget includes these funds under the appropriation for the baseline costs of the county administration program (please see Item 5180-141-001).
- ***Child Welfare Services.*** The budget proposes an appropriation of $31,611,000 ($24,526,000 General Fund and $7,085,000 federal funds) for the cost of COLAs granted by counties to CWS staff from 1982–83 through 1985–86. The budget includes these funds under the appropriation for the baseline costs of CWS (please see Item 5180-151-001).

Discretionary COLAs

In addition to the programs that receive statutorily mandated COLAs and retroactive COLAs, the DSS administers the following programs which have in the past received cost-of-living increases on a discretionary basis:

- ***IHSS.*** Under this program, counties provide supportive services to aged, blind, and disabled individuals to help them live in their own homes. The 1985 Budget Act included $13,629,000 to provide a 4 percent COLA to IHSS providers. It would cost $3,999,000 ($3,599,000 General Fund and $400,000 county funds) to provide a 1 percent COLA to IHSS providers in 1986–87. Funds appropriated for a COLA for the IHSS program would be used to increase the wages paid to providers.
- ***County Services Block Grant (CSBG) Program.*** Under this program, counties provide adult protective services, IHSS eligibility determination and case management services, and a variety of optional social services. The 1985 Budget Act included $2,819,040 ($2,275,840 General Fund and $543,200 county funds) to provide a 4 percent

COST-OF-LIVING ADJUSTMENTS—Continued

COLA for this program. It would cost $725,000 ($584,000 General Fund and $141,000 county funds) to provide a 1 percent COLA for the program in 1986–87. In general, the counties would use any funds provided to this program for a cost-of-living increase to finance the costs of the COLAs they have granted to the social workers assigned to the program.

- ***Foster Care.*** Under this program, counties pay grants to foster family homes and foster care group homes to cover their costs of providing 24-hour residential care to abused, neglected, and delinquent children. The 1985 Budget Act included $4,133,000 ($2,687,000 General Fund, $1,305,000 federal funds, and $141,000 county funds) to provide a 4 percent COLA to foster care providers. It would cost $3,201,000 ($2,320,000 General Fund, $758,000 federal funds, and $123,000 county funds) to provide a 1 percent COLA to foster care providers in 1986–87.
- ***Adoptions.*** Under this program, counties provide services to prospective adoptive parents and to children awaiting adoption. The Governor vetoed funds from the 1985 Budget Bill which had been added by the Legislature to provide a retroactive COLA for the Adoptions program. It would cost $3,330,000 ($3,147,000 General Fund and $183,000 federal funds) to provide a retroactive COLA to the Adoptions program in 1986–87. In general, counties would use any funds provided for a COLA to finance the costs of the COLAs they have granted to adoptions social workers.

The budget does not request funds to provide a COLA for any of these programs in 1986–87.

Child Welfare Services COLA Should Be Separately Identified

We recommend that the Legislature adopt Budget Bill language specifying that the $31,611,000 (General Fund and federal funds) appropriated for prior-year county-granted COLAs for the Child Welfare Services program be matched by the required county share of $8,225,000.

The budget proposes $31,611,000 ($24,526,000 General Fund and $7,085,000 federal funds) to fund COLAs provided to CWS staff from 1982–83 through 1985–86. Under current law, counties are required to provide a 25 percent match for COLAs provided to CWS staff. The county share of costs for these prior-year COLAs totals $8,225,000.

We recommend the Legislature specify that the $31.6 million budgeted for CWS is a COLA and therefore is subject to the 25 percent county match. This is necessary because the additional funding is proposed under Item 5180-151-001—the item which appropriates funds for CWS—and not in the COLA item (5180-181-001). Because the $31.6 million is proposed under Item 5180-151, the counties could refuse to provide their 25 percent share of the proposed increase in funding for the CWS program.

In order to ensure that the counties contribute toward the COLAs which they have granted, we recommend that the Legislature adopt the following Budget Bill language specifying that the $31,611,000 appropriated in Item 5180-151 for prior-year COLAs be matched by the required county share of $8,225,000:

> "Funds totaling $31,611,000 appropriated in Items 5180-151-001 and 5180-151-890 for Child Welfare Services are for funding of county-granted, prior-year COLAs. These General Fund monies and federal funds shall be matched by counties in the amount of $8,225,000."

Funding for Adoptions Program Inconsistent with Other County-Administered Programs

We recommend that prior to budget hearings, the Department of Finance advise the fiscal committees how the administration intends to support the state's share of the costs of the Adoptions program.

In the 1985 Budget Act, the Legislature and the Governor established the policy of funding the state's share of COLAs for administration of the AFDC, Food Stamps, and Medi-Cal programs one-year in arrears (referred to as "retroactive" COLAs). The 1986 Budget Bill proposes to expand this policy to the Child Welfare Services program in 1986–87.

The budget does not propose to apply this retroactive COLA policy to the Adoptions program. (The cost to the General Fund to provide a retroactive COLA to the Adoptions program would be about $3.1 million.) As a result, the budget for the Adoptions program is not consistent with the budgets for other county-administered welfare programs (that is, AFDC, Food Stamps, Medi-Cal, and Child Welfare Services).

We know of no reason why the Adoptions program should be funded at a level that is lower than actual county costs—especially in light of the funding proposals for the other welfare programs. We also note that the Legislature adopted the policy of providing a retroactive COLA to the Adoptions program when it passed the 1985 Budget Bill. (The Governor, subsequently vetoed this proposal.)

Accordingly, we recommend that prior to budget hearings, the Department of Finance advise the fiscal committees on how the administration intends to support the state's share of the costs of the Adoptions program under the current budget proposal.

DEPARTMENT OF SOCIAL SERVICES—REAPPROPRIATION

Item 5180-490 from the General Fund and the Federal Trust Fund — Budget p. HW 167

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reappropriates $3,958,000 of the funds appropriated from the General Fund by Ch 1638/84. These funds originally were provided for Child Abuse Prevention Training, and would be used for the same purpose in 1986–87. This item also reappropriates the unexpended portion of federal funds appropriated for Title XX (social services) training by the 1985 Budget Act. These funds would be used to support Title XX training activities in 1986–87. We recommend that both reappropriations be approved.

DEPARTMENT OF SOCIAL SERVICES—REVERSION

Item 5180-495 to the General Fund — Budget p. HW 167

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reverts $5,000 to the General Fund. This money was returned to the department by counties that received excess child support incentive payments for child support collection activities during 1981–82. Based on our review, we conclude that this reversion is appropriate.

Youth and Adult Correctional Agency
DEPARTMENT OF CORRECTIONS

Item 5240 from the General Fund and various funds — Budget p. YAC 1

Requested 1986–87	$1,239,765,000
Estimated 1985–86	1,021,385,000
Actual 1984–85	786,260,000
Requested increase $218,380,000 (+21.4 percent)	
Total recommended reduction	17,410,000
Recommendation pending	134,767,000

1986–87 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5240-001-001—Support	General	$1,151,854,000
5240-001-036—Support	Special Account for Capital Outlay	24,155,000
5240-001-723—Support	New Prison Construction Bond Fund	3,632,000
5240-001-890—Support	Federal	(208,000)
5240-001-917—Inmate Welfare Fund	Revolving	16,878,000
5240-101-001—Local Assistance	General	32,687,000
Reimbursements	—	10,559,000
Total		$1,239,765,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Funding for Inmate and Parolee Population Growth. Withhold recommendation, pending analysis of the population proposal to be contained in the May revision. 1015