STATE WATER RESOURCES CONTROL BOARD—Continued

of the number of toxic pits was more than three times too large. The number of toxic pits probably is closer to 300 than the original estimate of 1,077. The board will have a better estimate of the number of toxic pits in the state when these investigations are completed at the end of the current year.

No Proposal For Data Base System

We withhold recommendation on $85,000 requested from increased reimbursements to add 1.4 personnel-years for water quality data processing, pending receipt and review of the board's proposal.

The budget requests $85,000 from increased reimbursements to support 1.4 personnel-years to enter biological and water-quality data into a national data-base system. No information was available on this proposal at the time this analysis was prepared. Consequently, we withhold recommendation on the $85,000 in increased reimbursements for water quality data processing, pending receipt and review of the board's proposal.

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

Requested 1987–88	$3,993,000
Estimated 1986–87	4,185,000
Actual 1985–86	3,921,000
Requested decrease (excluding amount for salary increases) $192,000 (−4.6 percent)	
Total recommended reduction	None

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4100-001-890—State Council on Developmental Disabilities	Federal	$3,993,000
—Support		(860,000)
—Community program development		(2,783,000)
—Allocation to area boards		(350,000)
4100-001-001—Area Boards on Developmental Disabilities	Reimbursements	0

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS	*Analysis page*
1. We make no recommendation on the proposal to eliminate the Area Boards on Developmental Disabilities because there is no analytical basis for determining whether area board services are more or less valuable than other services purchased by the state.	498

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 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $3,993,000 from federal funds for support of the state council and area boards in 1987–88. This is a reduction of $192,000, or 4.6 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 federal funds from earlier years 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 1987–88 is $98,000, or 2.5 percent, above the amount appropriated in the Budget Act for the current year.

Although the level of aggregate funding proposed in the budget is approximately equivalent to current-year amounts, the budget proposes a major change in the allocation of the funds. Specifically, the budget proposes to eliminate the area boards and redirect $1,775,000 in associated funds to program development in the Department of Developmental Services. The budget includes $350,000 to pay costs of phasing out the area boards. 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
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
State council	12.4	12.6	12.4	$726	$844	$860	1.9%
Program development	—	—	—	1,263	1,245	2,783	123.5
Area boards	37.7	37.5	8.9	1,944	2,096	350	−83.3
Reimbursements	—	—	—	−12	—	—	—
Totals	50.1	50.1	21.3	$3,921	$4,185	$3,993	−4.6%

The budget proposes a total of 21.3 personnel-years for these programs in 1987–88. This represents a reduction of 28.8 personnel-years from the

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

current year and is primarily due to the proposed elimination of the area boards.

ANALYSIS AND RECOMMENDATIONS

Elimination of the Area Boards on Developmental Disabilities

We make no recommendation on the proposal to eliminate the Area Boards on Developmental Disabilities because we have no analytical basis for determining whether area board services are more or less valuable than other services purchased by the state.

The budget proposes to eliminate the 13 Area Boards on Developmental Disabilities, including support staff of 28.6 personnel-years, and redirect $1,775,000 in associated federal funds to augment program development activities in the Department of Developmental Services (DDS). The budget proposes an appropriation of $350,000 in federal funds to pay costs of phasing out the boards. New projects proposed for funding from these federal reimbursements in the DDS (please see Item 4300 for further discussion) are:

- Maintenance and in-home support services for medically fragile infants ($850,000).
- Community placement activities ($925,000).

The budget states that the administration will seek legislation to implement the proposal. Legislation would be required to eliminate the boards; however, board staff could be significantly reduced without enactment of legislation.

Under current law, the 13 area boards are responsible for monitoring service delivery on a regional basis in order to guarantee the legal, civil, and service rights of persons with developmental disabilities. The area boards are also responsible for public information programs aimed at eliminating barriers preventing developmentally disabled persons from social integration, employment, and participation in all community activities. The area boards are funded from federal developmental disabilities funds. In order to receive federal funds, the state must submit a state plan that satisfies federal requirements. The state plan for 1987 through 1989 was submitted and approved by the federal Department of Health and Human Services (DHHS) in the fall of 1986.

The budget change proposal provides three reasons for eliminating the area boards: (1) to comply with federal requirements that 65 percent of funds provided through the Developmental Disabilities Services Act be expended on certain priority services for the developmentally disabled, (2) to remove the duplication of functions with other organizations, and (3) to expand the development of community services for developmentally disabled persons.

Federal Compliance Argument Not Compelling. Our analysis indicates that federal compliance is not a real issue. Describing the function of the area boards as inconsistent with federal law ignores the fact that the DHHS has approved California's Developmental Disabilities State Plan, which includes a description of the area boards' functions and use of federal funds.

Basis of Duplication Issue is Subjective. The budget proposal asserts that the area boards' functions duplicate (1) the advocacy role of

Protection and Advocacy, Inc. (PAI), which is an independent federally funded organization that protects and advocates primarily on an individual client basis, (2) the service monitoring role of licensing agencies, regional centers, and the DDS, and (3) the planning functions of regional centers, the DDS, and the State Council on Developmental Disabilities. Our analysis indicates that there probably is some overlap, although the area boards provide a unique perspective that probably has some benefit. For example, the area boards indicate that they advocate on a system-wide basis while PAI advocates on an individual basis.

Whether the duplication is excessive is a matter of opinion; we have no analytical basis for determining whether the benefits of the area boards' perspective outweigh the benefits of additional program development or whether other organizations would provide all of the services currently provided by area boards if the boards were eliminated.

Expanding the Development of Community Services. The proposal accurately states that the proportion of federal funds allocated to the area boards has increased gradually over the past several years. The budget change proposal states that it seeks to reduce the allocation of funds to administration and planning functions in favor of direct services to clients, thereby restoring the balance. Our analysis indicates that this would argue for reducing the staff and the scope of the area boards' current activities, not necessarily eliminating the boards altogether.

Main Issue is General Fund Priorities. The administration's rationale for eliminating the boards boils down to a question of General Fund priorities: this proposal would free-up federal funds for new program development, thereby eliminating the need for a General Fund augmentation to the DDS budget.

We have no analytical basis for advising the Legislature regarding whether area board services are more or less valuable than other services purchased with state funds.

Our most recent evaluation of the area boards appeared in the 1983–84 *Analysis.* In that evaluation, we concluded that the effectiveness of the area boards could not be determined analytically because the Lanterman Act does not state precisely the objectives or intended consequences of the boards' activities. Accordingly, we make no recommendation on whether the area boards should be continued or their scope of activities redesigned; this is a policy issue that only the Legislature can decide.

Health and Welfare Agency

EMERGENCY MEDICAL SERVICES AUTHORITY

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

Requested 1987–88	$2,610,000
Estimated 1986–87	1,637,000
Actual 1985–86	1,587,000
Requested increase (excluding amount for salary increases) $973,000 (+59 percent)	
Total recommended reduction	896,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4120-001-001—Department support	General	$893,000
4120-101-001—Local assistance	General	1,717,000
Subtotal		$2,610,000
4120-001-890—Department support	Federal	189,000
4120-101-890—Local assistance	Federal	1,550,000
Total		$4,349,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Poison Control Centers. Reduce Item 4120-001-001 by $42,000 and Item 4120-101-001 by $854,000.*** Recommend reduction of $896,000 and 1.4 positions to provide matching funds for regional poison control centers because the need for state support has not been documented. Further recommend adoption of supplemental report language requiring a report on existing regional poison control centers. 501

GENERAL PROGRAM STATEMENT

The Emergency Medical Services (EMS) Authority operates under 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 paramedics and other emergency personnel.

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 15.2 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $2,610,000 from the General Fund for support of the authority's programs in 1987–88. This is an increase of $973,000, or 59 percent, above estimated current-year expenditures. The increase is due primarily to (1) a proposed new program of state funds for regional poison control centers, (2) a proposed increase in operating expenses and equipment, and (3) the elimination of reimbursements from the Office of Traffic Safety, which were provided in previous years to fund a project that has now been completed.

The proposed appropriation from federal funds is $1,739,000, which is a decrease of $270,000, or 13 percent, below estimated current-year expenditures. The reduction is due to the fact that federal funds carried over from 1984–85 and 1985–86 to 1986–87 will not be available in 1987–88. The authority advises that the reduction will primarily affect funds for special projects.

The budget proposes to increase the authority's staffing to 16.7 personnel-years in 1987–88—an increase of 1.5 personnel-years.

Table 1 shows expenditures and sources of funds for the years 1985–86 through 1987–88.

Table 1
Emergency Medical Services Authority
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Expenditures			Percent
Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Change from 1986–87*
State administration				
General Fund	$709	$753	$893	18.6%
Federal funds	171	276	189	−31.5
Reimbursements	124	21	—	−100.0
Subtotals	$1,004	$1,050	$1,082	3.0%
Local assistance				
General Fund	$754	$863	$1,717	99.0%
Federal funds	1,471	1,733	1,550	−10.6
Subtotals	$2,225	$2,596	$3,267	25.9%
Totals	$3,229	$3,646	$4,349	19.3%

ANALYSIS AND RECOMMENDATIONS

Poison Control Center Matching Funds Are Premature

We recommend that the Legislature delete 1.4 new positions and $896,000 proposed for poison control centers because the need has not been documented. We further recommend that the Legislature adopt supplemental report language directing the authority to report to the Legislature on services and funding of regional poison control centers. (Reduce Item 4120-001-001 by $42,000 and Item 4120-101-001 by $854,000.)

The budget proposes 1.4 positions (1.1 personnel-years) and $896,000 from the General Fund to provide matching funds for regional poison control centers (PCCs). The proposed amount includes $854,000 for grants to PCCs and $42,000 to cover the authority's costs of administering the new program, which is part of the Governor's Children's Initiative. The annual cost of the program would be approximately $1.7 million beginning in

EMERGENCY MEDICAL SERVICES AUTHORITY—Continued

1988–89. The authority currently provides no funds for PCCs.

There are currently seven regional PCCs operating in California. Each PCC provides the public with immediate telephone access to information and medical advice in poisoning cases. The PCCs provide information about the specific kind of poison, advise about antidotes if possible, and make referrals to local hospitals when necessary. They also serve as consultants to local doctors and hospitals. The authority advises that the PCCs are currently funded primarily by local hospitals, county medical associations, and voluntary donations. The average annual budget for a regional PCC is $350,000.

Under the new program proposed in the budget, the authority would provide grants of up to $125,000 during 1987–88 and $250,000 annually thereafter to each of the seven regional PCCs. The grants would be used to pay for toll-free phone lines and to enhance regional programs in the areas of employee training and community outreach.

The proposed 1.4 positions would be responsible for allocating the grant funds, supervising the grants, and developing and implementing a standardized data collection and reporting system. In addition to these new positions, the authority advises that it has allocated existing staff (.35 position) to complete proposed new state standards for regional PCCs, including the designation of geographical areas to be covered by each.

While we recognize that the regional PCCs provide a valuable public service by giving the public immediate access to information and medical advice in poisoning cases, our analysis indicates that the authority's proposal provides inadequate justification for the creation of what amounts to a major new state General Fund program. In particular, our review of the budget proposal indicates that:

- ***The proposal does not document a need for additional services.*** For example, the authority has not identified a specific geographic area or population not currently served by a PCC that would be served if the proposed funding were provided.
- ***The proposal does not document a need for state funding.*** The authority has not provided any evidence that currently available local funds are inadequate to cover the costs of the existing level of services. Moreover, the authority advises that it expects the existing PCCs to require relatively minor changes to meet the proposed new state standards. If this is the case, it is unclear why there is a need to provide funding to pay for program enhancements.
- ***The proposal does not provide any justification of the specific dollar amounts requested.*** By providing $854,000, the proposal assumes that each of the seven PCCs will receive almost the entire maximum grant of $125,000. However, the authority has provided no documentation to show why each PCC needs this level of funding or how the funding would be used.
- ***The proposal does not provide for a maintenance-of-effort requirement.*** Under the authority's proposal, regional PCCs would be free to use the General Fund money provided in the budget to replace existing local contributions rather than to enhance services beyond existing levels.

Because the authority has not provided this information, we believe that the proposal for matching funds is premature. In the absence of adequate justification for this proposal, we are unable to recommend that the Legislature approve this program. The authority advises that the proposed new standards for PCCs will be completed by July 1, 1987. The staff currently allocated by the authority to develop the standards could, therefore, be used instead to determine whether there is a need for increased poison control center services, what source of funding would be appropriate, and exactly how much new funding is needed, if any. We believe that it would be wiser to take the additional time needed to answer these basic questions than to jump prematurely into a major new General Fund commitment.

We therefore recommend that the Legislature delete 1.4 new positions and $896,000 proposed for the state matching funds for PCCs. We further recommend that the Legislature adopt supplemental report language directing the authority to report to the Legislature on (1) the adequacy of the services currently provided by regional PCCs, (2) the adequacy of existing local funding sources to continue covering the costs of these services, and (3) the costs and benefits associated with specific service enhancements. The following supplemental report language is consistent with our recommendation:

"The Emergency Medical Services Authority shall report to the Legislature, by January 1, 1988, on (1) the adequacy of services currently provided by regional poison control centers, (2) the adequacy of existing local funding sources to continue covering the ongoing costs of the services provided by the centers, and (3) the costs and benefits associated with any service enhancements that the authority believes are necessary."

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 6

Requested 1987–88	$51,196,000
Estimated 1986–87	46,332,000
Actual 1985–86	35,753,000
Requested increase $4,864,000 (+10.5 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. 505

HEALTH AND WELFARE AGENCY DATA CENTER—Continued

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 202.8 authorized personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $51,196,000 from the Health and Welfare Agency Data Center Revolving Fund to support the data center's operations in 1987–88. This is an increase of $4,864,000, or 10.5 percent, above estimated current-year expenditures.

Table 1 identifies the significant changes in the center's expenditures proposed for 1987–88.

Table 1
Health and Welfare Agency Data Center
Proposed Budget Changes
1987–88
Revolving Fund
(dollars in thousands)

1986–87 expenditures (revised)		$46,332
Proposed changes		
1. Cost Adjustments		
a. Full-year cost adjustments	$5,183	
b. EDP software cost increase	199	
c. Federal audit repayment	−2,943	
d. Pro rata reduction	−162	
e. Current-year deficiencies	−715	
		1,562
2. Program adjustments		
a. Increase dedicated equipment	$2,811	
b. Increase technical and processing support	304	
c. Equipment for new CALSTARS users	187	
		3,302
3. 1987–88 expenditures (proposed)		$51,196
Change from 1986–87:		
Amount		$4,864
Percent		10.5%

ANALYSIS AND RECOMMENDATIONS

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

1. An increase of $199,000 for increased electronic data processing (EDP) software maintenance costs.

2. An increase of $187,000 for six additional telecommunications support positions to support increased dedicated equipment for various user de-

partments. (This amount is included within the "technical and processing support" line in Table 1.)

3. An increase of $87,000 for two positions to provide support for specialized office automation packages. (This amount is within the "technical and processing support" line in Table 1.)

4. An increase of $30,000 for one position to support increased user department needs for training and technical library assistance. (This amount is within the "technical and processing support" line in Table 1.)

HWDC's Budget Needs to be Reconciled with User Departments' Budgets

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

The data center is funded solely through reimbursements from departments that receive services from the center. Thus, the budget proposal for the data center should equal 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 providing new services to some of its user departments. We have compared these proposals with information provided to us by the user departments. Based on our review, we estimate that there is a discrepancy of approximately $2.9 million between the data center's proposed budget and the funds identified by the user departments for the center. This discrepancy is associated with the addition of users to the CALSTARS system and increased data processing and communications needs of existing user departments. The Department of Finance acknowledges this difference in funding levels and indicates that it is working to reconcile the difference. Therefore, 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.

Health and Welfare Agency

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

Item 4140 from the General Fund and various other funds — Budget p. HW 9

Requested 1987–88	$25,134,000
Estimated 1986–87	26,489,000
Actual 1985–86	22,547,000
Requested decrease (excluding amount for salary increases) $1,355,000 (−5.1 percent)	
Total recommended reduction	None
Recommendation pending	705,000

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4140-001-001—Support	General	$1,522,000
4140-001-121—Support	Hospital Building Account, Architecture Public Building	14,664,000
4140-001-143—Support	California Health Data and Planning	5,231,000
4140-101-001—Local assistance	General	2,880,000
Health and Safety Code 436.26	Health Facilities Construction Loan Insurance	723,000
Reimbursements	—	114,000
Total		$25,134,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Seismic Safety Program. Recommend that the office submit, prior to budget hearings, (a) updated workload estimates and staffing standards and (b) a contingency plan to be used in case of unanticipated workload increases. 509
2. Elimination of Positions Due to Loss of Federal Funds. Withhold recommendation on the proposals to eliminate four positions in the Health Planning and Health Professions Development Divisions until the office submits documentation that legislatively mandated requirements can be accomplished with the proposed level of staffing. 511

GENERAL PROGRAM STATEMENT

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

1. ***The State Health Plan.*** The office works with the state's 12 health system agencies to establish priorities for the financing and delivery of health services within California.

2. ***Demonstration Projects.*** The office develops information and recommendations on the safety, effectiveness, and cost implications of new treatment methods for health care and evaluates health and social services programs when directed by legislation.

3. ***Health Profession Development.*** The office administers the Song-Brown Family Physician Training program, the Health Professions Career Opportunity program, health manpower pilot projects, and health manpower planning activities.

4. ***Facilities Development.*** The office reviews plans for, and performs 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. ***Health Facilities Data.*** The office collects 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 255.8 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

Expenditures for support of the office from all funds are proposed at $25,134,000 in 1987–88. This is a decrease of $1,355,000, or 5.1 percent, below estimated current-year expenditures. The budget proposes appropriations of $4,402,000 from the General Fund to support the Office of Statewide Health Planning and Development (OSHPD) in 1987–88. This is a decrease of $16,000, or 0.4 percent, below estimated current-year General Fund expenditures. These budget figures and the tables that follow have not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund 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
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Health planning	22.5	16.6	13.7	$1,933	$1,502	$1,232	−18.0%
Certificate of need	16.3	3.1	—	1,288	733	—	—
Demonstration projects	—	0.9	7.5	—	142	475	234.5
Health professions development	16.1	12.8	11.9	4,461	4,509	4,077	−9.6
Facilities development and financing	89.1	119.7	118.9	12,709	14,843	15,387	3.7
Health facilities data	34.9	58.9	57.2	1,846	4,646	3,864	−16.8
Administration—undistributed	34.9	43.8	43.8	310	114	114	0.0
Special adjustment	—	—	—	—	—	−15	—
Totals	213.8	255.8	253	$22,547	$26,489	$25,134	−5.1%
Funding sources							
General Fund				*$4,291*	*$4,418*	*$4,402*	*−0.4%*
Hospital Building Account, Architecture Public Building Fund				*11,783*	*14,117*	*14,664*	*3.9*
California Health Data and Planning Fund				—	*6,558*	*5,231*	*−20.2*
Health Facilities Construction Loan Insurance Fund				*671*	*684*	*723*	*5.7*
Federal funds				*1,570*	*378*	—	—
Reimbursements				*4,232*	*334*	*114*	*−65.9*

The decrease in total expenditures from all sources is partially due to the presence of certain one-time adjustments in the current-year total. These one-time adjustments include (1) a $510,000 carry-over for the Song-Brown Family Physician Training program, (2) a $350,000 reappropriation for relocation of staff, and (3) $535,000 in one-time costs associated with the seismic safety program. Budget-year adjustments include (1) a $461,000 increase due to implementation of new legislation and (2) a net reduction of $510,000 in federal funds from the current year. If these program changes are deducted from the current and budget years, there is an increase of $89,000, or 0.4 percent, above current-year expenditures.

The decrease in General Fund spending is the net effect of two adjust-

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

ments: (1) the deletion of $510,000 in one-time funds carried over into the current year from previous years for the Song-Brown Family Physician Training program and (2) an increase of $449,000 to implement new legislatively authorized demonstration projects. When these two adjustments are removed, the level of funding proposed for the OSHPD's ongoing programs in 1987–88 represents an increase of $45,000, or 1.2 percent, above current-year expenditures.

The budget proposes a total of 253 personnel-years for 1987–88, a decrease of 2.8 personnel-years from the current-year level. The decrease reflects a combination of reductions and increases, including reduction due to the sunset of the Certificate-of-Need (CON) program, elimination of the Uncompensated Care program, and a partially offsetting increase due to staffing needs for new demonstration projects.

Table 2 identifies the major budget changes proposed for 1987–88.

Table 2
Office of Statewide Health Planning and Development
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1986–87 expenditures (Budget Act)	$3,917	$26,226
Adjustments, 1986–87:		
1. Retirement contribution reduction	−9	−199
2. Federal funding loss	—	−398
3. Carry-over appropriation for Family Physician Training program	510	510
4. Reappropriation for Health Facilities Commission relocation	—	350
1986–87 expenditures (revised)	$4,418	$26,489
Baseline adjustments, 1987–88:		
1. Pro rata adjustment	—	398
2. Overhead adjustment	40	—
3. Expiring certificate-of-need positions	—	−213
4. Data processing funding shift	21	—
5. Additional retirement contribution reduction	−1	−1
6. One-time cost reductions:		
a. External contracts	—	−80
b. Seismic safety surveys and equipment	—	−455
7. Legal counsel equipment	—	−80
8. Current-year federal funding loss	—	398
9. Carry-over appropriation for Family Physician Training program	−510	−510
10. Current-year reappropriation	—	−350
11. Special adjustment	−15	−15
Program change proposals:		
1. Demonstration projects	449	449
2. Federal funding loss	—	−908
3. Implementation of Ch 1084/86	—	12
1987–88 expenditures (proposed)	$4,402	$25,134
Change from 1986–87 (revised):		
Amount	−$16	−$1,355
Percent	−0.4%	−5.1%

We recommend approval of the following funding and staffing changes proposed for 1987–88 that are not discussed elsewhere in this analysis:

- An increase of 1.5 positions and $142,000 from the General Fund to implement the cardiac catheterization pilot project authorized by Ch 1074/85. Participant fee revenue will offset the General Fund cost.
- An increase of 1.5 positions and $75,000 from the General Fund to implement the Alzheimer's disease institutes demonstration project authorized by Ch 22/86. Participant fee revenue will offset the General Fund cost.
- An increase of 0.5 position and $12,000 from health facility fees (California Health Data and Planning Fund) to collect and make available to the public long-term care bed data as required by Ch 1084/86.
- An increase of 1 position and $50,000 from the General Fund to evaluate the respite care program in the Department of Health Services as required by Ch 1298/86.
- An increase of 4 positions and $182,000 from the General Fund to implement the post-surgical care demonstration project authorized by Ch 1320/86. Participant fee revenue will offset up to $90,000 of the General Fund cost. The office indicates that it will introduce legislation to increase the fee revenues that may be collected under this program.

ANALYSIS AND RECOMMENDATIONS

Seismic Safety Program

We recommend that the office submit, prior to budget hearings, (1) updated workload estimates and staffing standards and (2) a contingency plan to be used in case of unanticipated workload increases.

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

Since the office assumed the responsibilities contained in Chapter 303, it has struggled to perform its duties in a timely manner. In past years, the office has underestimated its resource needs and, as a result, the average time for a seismic safety plan review was often greater than 10 weeks and as much as 16 weeks during some months. The office believes that eight weeks for a seismic safety plan review is an appropriate goal. Gradually, the office has increased the resources allocated to the program.

1986–87 Budget Action. The Legislature approved an increase of 23 professional and 10 support positions in 1986–87 to cover workload attributable to Chapter 303. This increase brought the office total to 88 review and inspection professionals. The Legislature also added language to the 1986 Budget Bill which specified that (1) if the office failed to maintain the average time necessary to complete a seismic safety project plan review below eight weeks during any 30-consecutive-day period, then it should take certain corrective action and (2) the office should gather for use in the 1987–88 budget such worker productivity data as are necessary to quantify, update, and revise the staffing standards for the professional positions of the seismic safety program. The threshold of eight weeks was developed from the office's own stated goals. The Governor vetoed the language but indicated in his veto message that he would direct the office to comply with its intent.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—Continued

1987–88 Budget Proposal. The 1987–88 budget assumes that there will be no increase in workload over the current year. Consequently, it proposes to continue the current-year staffing level into the budget year. The office indicates that it may propose a budget amendment letter in spring 1987 to update its staffing request.

Current Status: Excessive Use of Overtime and Annuitants. At the time this analysis was written, the office was diligently working to fill the remaining 5 of the 23 new professional positions. Many of the newest hires are still receiving training. During July through December 1986, the office completed, on average, 94 percent of scheduled inspections and maintained the average review time under eight weeks.

Although the office is maintaining reasonable average review times, it is relying heavily on overtime and use of annuitants to accomplish its workload. Data collected in the sample month of November 1986 indicated that overtime and annuitants handled about 20 percent of the workload (overtime 7.5 percent and annuitants 12.5 percent).

The office's official policy is to use overtime and annuitants for peak workload and not as a permanent part of its staffing base. The office states that this is a necessary policy so that the office will have ample capacity to deal with unanticipated workload increases. The office states that it intends to monitor and reduce the use of overtime and annuitant hours.

Validation of Workload Standards Not Complete. At the time this analysis was written, the office had not completed validating its professional staffing standards.

Workload Estimates Subject to Change. There is no firm basis for projecting workload for 1987–88. As shown in Table 3, from 1983–84 through 1985–86 the workload increased an average of 43 percent per year. The office underestimated workload in each of these years. The current-year budget is based on a consultant's study that projected a 6 percent growth in workload from 1985–86 (as revised) to 1986–87. The study's projection was based on limited data and did not estimate what effect the elimination of the Certificate-of-Need (CON) program could have in future years. The CON program served to slow down health facility construction and was eliminated in January 1987. Many believe that eliminating the CON program will result in workload increases.

Table 3
Seismic Safety Workload
Construction Volume
1983–84 through 1987–88
(dollars in millions)

	Budgeted	*Actual*	*Percent Change from Prior Year*
1983–84	$456	$487	
1984–85	484	719	47%
1985–86	808	1,002	39
1986–87	1,270	666 [a]	NA
1987–88	1,270 [b]	—	—

[a] July 1986 through December 1986.
[b] This differs from the estimate of $1.35 billion displayed in the 1987–88 budget document. The OSHPD indicates that the basis for the budget is $1.27 billion.

Without further data and information, it is impossible for us to determine if the office's budget-year projection is reasonable. Projecting a 43 percent annual growth would be extraordinary, yet there is widespread concern that the elimination of the CON program will increase workload above the current-year budgeted level, at least in the short term.

Information Needed. The Legislature needs updated workload estimates and staffing standards before it can determine the correct funding level for the program. In addition, due to uncertainties in the projected workload, we believe the office should have a contingency plan for dealing with unanticipated workload increases. Accordingly, we recommend that prior to budget hearings, the office submit (1) its revised staffing standards and workload assumptions to the fiscal subcommittees and (2) a contingency plan for unanticipated workload.

Elimination of Positions Due to Loss of Federal Funds

We withhold recommendation on the proposals to eliminate four positions in the Health Planning and Health Professions Development Divisions until the office submits information regarding how legislatively mandated requirements can be accomplished with the proposed level of staffing.

In a letter received October 23, 1986, the Director of Finance notified the Legislature that the office was losing $1,192,000 in federal funds in the current year due to the elimination of the health planning program in the federal budget. The office redirected $794,000 in funds and made expenditure reductions totaling $398,000 due to the funding losses.

The federal funding reduction in 1987–88 is a total of $1,570,000, or $378,000 more than the current-year amount. The budget proposes the following actions in order to respond to the funding loss:

- A reduction of $203,000 and three positions in the Uncompensated Care and Community Service program.
- A reduction of $678,000 and three positions and contracts in the Health Planning Division.
- A reduction of $27,000 and one position in the Health Professions Division. Costs of $45,000 would be paid from other funds.
- A reduction of $208,000 in federal funds, $5,000 in other funds, and three positions due to the sunset of the CON program.
- A shift of $92,000 in data processing costs and $317,000 in administrative overhead costs to other funds.

We recommend approval of the reduction associated with the sunset of the CON program and the funds shifts associated with data processing and administrative overhead. The other proposals are discussed below.

Hill-Burton Uncompensated Care and Community Service Program. Under this program, health facilities that received federal grants, loans, or loan guarantees for construction, modernization, or equipment (1) must provide uncompensated services and (2) may not discriminate between patients on grounds unrelated to an individual's need for the service or the availability of the needed service in the facility.

Prior to the funding loss, the office monitored facilities' compliance with these program requirements through agreements with the federal Department of Health and Human Services (DHHS). The office indicates that in 1985–86, health facilities had an outstanding uncompensated service obligation of $19,106,000 and that the office investigated a total of 20 complaints. The office indicates that the program requirements will be monitored by the DHHS, beginning in the budget year.

Reductions in Health Planning and Health Professions Development Divisions. The mission of these two divisions is to provide the Legislature and the Governor with information and recommendations on state health facilities, services, manpower, and training. The Health Planning Division is responsible for preparing the State Health Plan. The division is authorized 16.6 personnel-years in the current year; this proposal would decrease the division's personnel-years to 13.7.

The Health Professions Development Division conducts the Health Professions Careers Opportunity program, the Family Physician Training program, and health manpower pilot projects and prepares the annual health manpower plan, which is part of the State Health Plan. The division is authorized 12.8 personnel-years in the current year; this proposal would decrease the division's personnel-years to 11.9.

The office indicates that the proposed reduction of four positions is justified because (1) there will be efficiencies resulting from a proposed reorganization and (2) the two professional positions in the Health Planning Division have not been assigned to this division for some time. In the reorganization, the office is centralizing its data collection activities into one group and data analysis activities into another group.

Poor Performance in Reporting. We identified 11 reports due to the Legislature in 1984–85 through 1986–87 from the two divisions. These reports include the State Health Plan due January 1, 1987, the health manpower plans for 1983–84 and 1985–86, and annual reports of the Health Professions Careers Opportunity program, the Family Physician Training program, the Health Manpower Policy Commission, and the Health Manpower Pilot Projects program. *None* of these reports have been submitted to the Legislature on time; several reports are over a year late and one is more than three years late.

Because the performance problems involve past and current years and two separate divisions, and occur with a wide variety of reports, we conclude that the problems are caused by more than the peculiarities of any single report. We cannot determine whether it is insufficient resources, poor management, and/or outside factors that are the cause of the office's performance problems.

The purpose of the reports is to provide timely information so that the Governor and Legislature can make informed decisions. They are basic to the office's function. In light of the importance of the reports and the office's performance problems, we believe that it is imprudent for the office to be making staff reductions. However, we are uncertain that the particular positions proposed for reduction are necessary for the office to improve its performance. Consequently, we recommend that the office submit documentation which (1) describes the reasons for the past and current performance problems, (2) explains exactly how the office will correct these problems, and (3) details how the office will satisfy legislative requirements with the proposed level of staffing.

Therefore, we withhold recommendation on the proposal to reduce staff in the Health Planning and Health Professions Development Divisions until it submits information explaining how the office can accomplish legislatively mandated requirements with the proposed level of staffing.

Small Facility Loan Guarantee for Developmental Disability Programs

Chapter 896, Statutes of 1978, established a program to provide loan insurance for construction of facilities by nonprofit corporations that assist developmentally disabled clients to move to more independent living arrangements. The program is directed at facilities with loans of no more than $300,000. Priority for loan insurance is given for the development of facilities with six or fewer clients.

This act requires our office to report on the utilization program. Our findings follow.

Utilization of the Program Has Been Light. The program has insured loans for two day program facilities, with combined loans of $245,000, since its inception. The office indicates that it has received about a dozen inquiries since 1980 but has not received any new applications.

The Department of Developmental Services (DDS) believes that low utilization of the program is due to a cumbersome and expensive application process (especially for small nonprofit corporations) and lack of program understanding on the part of corporations who could use the program. The small facility loan guarantee program application process is identical to that used for the Cal-Mortgage Loan Guarantee program, which is generally directed at relatively large corporations.

Currently, the office is streamlining the program application process to make it more accessible and less costly to interested corporations. The office indicates that streamlining the process could reduce the application cost by a factor of 10. The office has not given a firm date on the completion of the streamlining process. In addition, the DDS has recently assigned a staff person to disseminate information about the program to potential users. We believe these actions should increase utilization of the program.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT—REVERSION

Item 4140-495 to the General Fund — Budget p. HW 9

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes reversion of the unencumbered balance remaining from the appropriation in Ch 1186/79. The funds would revert to the unappropriated surplus of the General Fund.

Chapter 1186, Statutes of 1979, appropriated $700,000 for the purpose of making grants and loans available to community and free clinics licensed in the state. This program sunsetted January 1, 1981. As of January 1, 1987, a balance of $4,947 remained unexpended. We recommend approval of the proposed reversion.

Health and Welfare Agency
CALIFORNIA DEPARTMENT OF AGING

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

Requested 1987–88	$125,914,000
Estimated 1986–87	125,016,000
Actual 1985–86	121,861,000
Requested increase (excluding amount for salary increases) $898,000 (+0.7 percent)	
Total recommended reduction	None

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4170-001-001—Support	General	$4,745,000
4170-001-890—Support	Federal	2,354,000
4170-101-001—Local assistance	General	29,159,000
4170-101-890—Local assistance	Federal	77,290,000
Reimbursements	—	12,366,000
Total		$125,914,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Linkages Program—Client Acquisition. Recommend that prior to budget hearings, the department submit information to the fiscal committees regarding whether Linkages sites can meet client acquisition rates with the current staffing levels. 518
2. Linkages Program—Level "X" Cases. Recommend that prior to budget hearings, the department submit to the fiscal committees a plan for reducing the number of level "X" cases served by Linkages sites. 520
3. Linkages Program—Purchase of Services. Recommend that the Legislature adopt supplemental report language requiring the department to include in the Long-Term Care Report information that explains the differences in purchase of service costs among Linkages sites. 520
4. Health Insurance Counseling and Advocacy Program (HICAP) Expansion. Reduce Reimbursements from the Department of Insurance by $656,000. Recommend that funding for expansion of HICAP be deleted because there is no information available regarding the cost-effectiveness of the program. 521
5. Multipurpose Senior Services Program (MSSP). Recommend that prior to budget hearings, the department submit information to the fiscal committees regarding the status of the federal waiver renewal for MSSP. 522
6. MSSP Research. Recommend that prior to budget hearings, the department submit to the fiscal committees specified information regarding proposed MSSP research for the budget year. 524

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 OAA 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.

In the current year the department is authorized 132.9 personnel-years.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total program expenditures of $125.9 million for the CDA in 1987–88. This includes $33.9 million from the General Fund, $79.6 million in federal funds, and $12.4 million in reimbursements. Total expenditures proposed for 1987–88 are $0.9 million, or 0.7 percent, greater than estimated current-year expenditures.

The budget proposes $33.9 million from the General Fund for support of CDA's activities in 1987–88. This is a decrease of $2.3 million, or 6.3 percent, from current-year expenditures. This decrease includes $48,000, which is 0.1 percent of the General Fund support, as a "Special Adjustment" to the proposed budget-year expenditures for state operations.

Table 1 presents a summary of the department's funding and expenditures for the prior, current, and budget years. This table includes both the amounts proposed in the budget ($125.9 million) and the amounts available to the department through other appropriations ($200,000).

Table 2 identifies, by funding source, the significant changes in expenditure levels proposed for 1987–88. Tables 1 and 2 have not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

CALIFORNIA DEPARTMENT OF AGING—Continued

Table 1
California Department of Aging
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
State administration	$24,635[a]	$8,742	$8,776	0.3%
Older Americans Act (OAA) Programs				
Local Assistance:				
Congregate Meals	$39,944	$43,280	$43,280	—
Home-Delivered Meals	17,260	15,957	15,957	—
Employment Services	4,923	4,995	4,995	—
Social Services	28,630	25,711	25,711	—
Ombudsman	(2,067)	(1,953)	(1,953)	—
Special Projects	2,067	2,183	2,586	18.5
Subtotals, OAA	$92,824	$92,126	$92,529	0.4%
Long-Term Care Programs				
Local Assistance:				
MSSP	—[a]	$19,057	$19,013	−0.2%
Linkages/Alzheimers/Respite	3,586	4,226	4,258	0.8
Adult Day Health Care	816	865	1,482	71.3
Subtotals, Long-Term Care	$4,402	$24,148	$24,753	2.5%
Totals, all expenditures	$121,861	$125,016	$126,058	0.8%
Unexpended balance (estimated savings)	($887)	—	—	NMF[b]
Balance available in subsequent year	($2,105)	($1,789)	($41)	−97.7%
Funding Sources				
General Fund	*$34,985*	*$36,181*	*$35,679*	*−1.4%*
Federal funds	*77,991*	*78,013*	*78,013*	—
Reimbursements	*8,885*	*10,822*	*12,366*	*14.3%*

[a] MSSP site operations were included in State Operations prior to 1986–87.
[b] Not a meaningful figure.

Table 2
California Department of Aging
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*Federal Funds*	*Reimburse-ments*	*Total*
1986–87 expenditures (revised)	$36,181	$78,013	$10,822	$125,016
1. Cost adjustments:				
a. Decrease in existing personnel costs	−1	—	—	−1
b. Special adjustment	−48	—	—	−48
2. Workload adjustments:				
a. One-time only expenditures for equipment	−2	—	—	−2
b. Senior Companion program reduction	−160	—	—	−160
c. Financial legislation	−232	—	−22	−254
Total adjustments	−$443	—	−$22	−$465
3. Program change proposals:				
a. Respite care	$39	—	—	$39
b. ADHC expansion	776	—	$22	798
c. Foster Grandparent program expansion	50	—	—	50
d. HICAP expansion	—	—	620	620
e. HICAP funding transfer	−924	—	924	—
Total program change proposals	−$59	—	$1,566	$1,507
1987–88 expenditures (proposed)	$35,679	$78,013	$12,366	$126,058
Change from 1986–87:				
Amount	−$502	—	$1,544	$1,042
Percent	−1.4%	—	14.3%	0.8%

Table 3 presents a summary of personnel-years for the department in the prior, current, and budget years. The increase in personnel-years for Older Americans Act programs is due to proposed staff increases in the Ombudsman program, Senior Center Bond program, and HICAP. The increase for long-term care programs reflects proposed staff increases for the ADHC expansion and the implementation of the Respite Care programs.

Table 3
California Department of Aging
Personnel-Years
1985–86 through 1987–88

Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Administration	80.5	79.0	79.0	—
Older Americans Act	21.4	21.6	25.3	17.1%
Long-Term Care	32.8	32.3	33.5	3.7
Totals	134.7	132.9	137.8	3.7%

ANALYSIS AND RECOMMENDATIONS

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

- ***Long-Term Care Ombudsman Program Positions ($89,000).*** The department proposes to establish two positions in the Long-Term Care Ombudsman program in order to meet increased program responsibilities resulting from the CRISISline telephone service and growing public awareness about the program. The positions will be funded through a redirection of contract funds.
- ***Adult Day Health Care Program Expansion ($798,000).*** These funds were appropriated by Chapter 1218, Statutes of 1986, and will be used to expand the program and to add two positions.
- ***Senior Center Bond Act Position ($40,000).*** The department proposes to establish one position in order to provide for increased monitoring of bond contracts. The position will be funded through a redirection of contract funds.
- ***Foster Grandparent Program Expansion ($50,000).*** The department proposes to expand the Foster Grandparent program by funding additional community volunteer opportunities for seniors.
- ***Respite Care ($39,000).*** The department proposes to implement the Respite Care Services Project and the Respite Care Registry that were established by Chapters 446 and 1349, Statutes of 1986. In addition, the department proposes to establish 0.5 position in order to administer the programs.
- ***Senior Companion Program (−$160,000).*** Because state law only authorizes this program until January 1, 1988, funds are not required for the last six months of 1987–88.
- ***Financial Legislation (−$254,000).*** This reflects reductions in expenditures in the Community Care Facility Demonstration Project, the Adult Day Health Care program, and the Alzheimer's Day Care Resource Center program.

CALIFORNIA DEPARTMENT OF AGING—Continued

Linkages Program

The Linkages program, established by Ch 1637/84 (AB 2226), is designed to provide various types of services to frail elderly and functionally impaired adults in order to avoid premature institutionalization. The Linkages program provides four levels of service as follows:

Levels A and B. These services basically consist of information and referral. Under level A, Linkages staff provide in-depth information regarding the availability of and access to various long-term care resources, including other community-based programs, nutrition and social services, and medical facilities. Under level B services, Linkages staff may refer individuals to a service provider and follow-up to assure that the service was delivered.

Levels C and D. These levels provide case management services to elderly and functionally impaired adults who are at risk of institutionalization. Case management services consist of assessment of client needs, arranging and coordinating services, and monitoring the delivery of services. Level C service is designed to serve clients on a short-term basis (one month), while level D provides ongoing case management services. Under both levels, staff may use Linkages program funds to purchase needed services for clients when services cannot be obtained through existing community resources. Services which may be purchased include In-Home Supportive Services (IHSS), transportation, respite care, and social day care.

The Linkages program can provide level C and D services to individuals who are either Medi-Cal or Non-Medi-Cal eligible. The program, however, cannot serve individuals who are certifiable for skilled nursing facilities or intermediate care facilities (SNFs/ICFs). A portion of these individuals may be referred to the Multipurpose Senior Services Program (MSSP), which is designed to provide case management services to impaired adults over the age of 65 who are SNF/ICF certifiable and Medi-Cal eligible.

Currently, there are 13 Linkages sites serving approximately 1800 level C and D clients throughout the state. Each site is staffed to handle 200 Level C and D clients, with each case worker managing a caseload of up to 50 clients. Table 4 shows the site implementation schedule and number of clients for each site as of September 1986.

Linkages Sites Have Not Met Client Acquisition Rates

We recommend that prior to budget hearings, the CDA submit information to the fiscal committees regarding whether Linkages sites can meet client acquisition rates with the current staffing levels.

As indicated above, each Linkages site has staff that the Department of Aging assumes is adequate to carry a caseload of 200 level C and D clients, with each case worker being assigned up to 50 clients. The department originally projected that the nine sites, which began client acquisition in October and November 1985, would reach their full caseload by June 30, 1986. As Table 4 shows, none of the sites have attained this goal. Linkages sites on average are serving only 141 clients.

The department advises that there are several factors that may explain why sites have not met the projected client acquisition rates. One reason is that some potential clients may not be aware that case management services are available through the Linkages program. In addition, there are indications that the sites lack adequate staff to handle the projected caseloads, as follows:

- ***Information and Referral Services.*** Some sites have separate staffs to provide information and referral services and to provide case management services. At other sites, however, professional staff are responsible for providing both services. This latter practice reduces the amount of time staff can spend processing level C and D cases.
- ***Assessments Are Time-Consuming.*** Linkages staff are required to conduct assessments on each new client. These assessments can be time-consuming, especially if they involve a great deal of travel. Because of the amount of time required to complete these assessments and the requirement for 6-month and 12-month client reassessments, the sites have been slow in bringing on new clients.
- ***More Level D Cases Than Anticipated.*** As shown in Table 4, the number of level D clients is significantly larger than the number of level C clients. This is important because the level D clients require more staff time, thereby reducing the amount of time available to bring on other clients.

Table 4

California Department of Aging
Linkages Program
Site Implementation
September 1986

Sites	*Start Up Date*	*Client Contact A & B*	*Caseload C*	*Caseload D*
Alta Med Health Services Corp., L.A. County	May 1986	34	13	79
Area Agency on Aging, San Diego County	October 1985	54	0	182
City of Oakland, Department of Social Services	November 1985	24	1	172
Community Care Management Corporation Mendocino/Lake Counties	October 1985	18	1	155
Department of Health Services, San Mateo County	November 1985	52	4	152
Department of Social Services, Monterey County	November 1985	0	5	115
Children's And Community Service, San Joaquin County	October 1985	72	1	176
Humboldt Senior Citizens Council, Inc.	October 1985	47	1	181
Huntington Memorial Hospital, Los Angeles County	February 1986	275	1	128
Jewish Family Services of Los Angeles	February 1986	19	38	95
Mount Zion Hosp./Medical Center, San Francisco	October 1985	10	1	127
Senior Care Action Network, Los Angeles County	February 1986	32	0	141
Westside Center for Independent Living, Los Angeles	November 1985	32	4	66
Totals		669	70	1,769

- ***Level X Cases Consume Staff Time.*** Many sites have had a number of level "X" cases which require additional staff time. Level X clients are individuals who have undergone the initial assessment, but decide not to use the case management services. Many of these clients decide that the information provided to them during the initial assessment enables them to meet their needs without the aid of case management services, or that case management simply is not a service that they wish to receive. These cases can take up to 30 percent of a case manager's time in one month. These clients, however, are not counted as part of the ongoing caseload. (This issue is discussed later in this analysis.)

CALIFORNIA DEPARTMENT OF AGING—Continued

Thus, it appears that the primary reason sites have not acquired their full caseloads is that they lack adequate staff to serve 200 level C and D clients at each site. The department advises that it is currently reviewing its policy of requiring each site to serve 200 level C and D clients, or 50 clients per case worker. At the time this analysis was prepared, the department could not advise the Legislature if (1) it was going to revise downward from 200 the number of clients each site is expected to carry, thereby reducing the number of clients per case worker or (2) continue to require each site to serve 200 cases, but provide funds for additional staff.

In order to ensure that staffing is adequate for projected caseloads, we recommend that prior to budget hearings, the department submit information to the fiscal committees regarding whether Linkages sites can meet client acquisition rates with the current staffing levels.

The Department Should Take Steps To Reduce Level X Cases

We recommend that prior to budget hearings, the CDA submit to the fiscal committees a plan for reducing the number of level X cases served by Linkages sites.

As discussed above, Linkages staff conduct a large number of client assessments for individuals (level X clients) who subsequently decide not to enroll in the program. For example, one Linkages site served 64 level X clients in one month, while another site served a total of 52 such individuals. On the other hand, several sites have had no level X clients over one month's time. While the number of these clients varies significantly from month to month among sites, there were an average of 14 level X clients served per month by each site during the first quarter of 1986–87. We estimate that these clients required an average of 13 percent of a case worker's time per month. This staff time potentially could be used to provide case management services to additional level C and D clients.

We recognize that the information provided by case managers during the assessment process can be valuable to an individual who subsequently decides not to participate in the Linkages program. Our concern is that these cases take up limited staff resources that might be used to provide case management services to additional clients. It may be possible for a potential client to determine whether Linkages is an appropriate alternative *prior* to the initial assessment process. For example, the department may be able to modify the intake and screening process in order to provide additional information to a potential client about the case management concept and alternative resources available in the community to meet the individual's need.

Therefore, in order to maximize the use of staff time, we recommend that prior to budget hearings, the department submit to the fiscal committees a plan for reducing the number of level X clients served by Linkages sites.

Purchase of Service Expenditures Vary Widely Among Linkages Sites

We recommend that the Legislature adopt supplemental report language requiring the department to include in the January 1, 1988 Long-Term Care Report to the Legislature information explaining the differences in purchase of service costs among Linkages sites and describes how the department may be able to minimize these differences.

Linkages staff are authorized to purchase services for clients when existing community resources are not available to provide needed services. Sites budget purchase of service costs at $21 per client per month. However, sites may incur purchase of service costs of up to $150 per month for a client under certain circumstances.

The most recent expenditure data from the department shows that there is wide variation among sites regarding purchase of service expenditures. For example, purchase of service costs ranged from zero up to $29 per client in September 1986. The department indicates that costs may vary because of differences in the amount of funds available to sites to purchase services. In addition, costs may vary due to regional cost-of-living differences or differences in the availability of existing community resources. Such cost differences are the result of factors that the sites cannot easily control.

On the other hand, the sites may be able to control some of the factors that result in differences in purchase of service costs. For example, sites may be able to do a better job of utilizing existing resources. In such cases, the department may be able to reduce the differences in costs among sites, thereby maximizing the use of limited program funds.

At the time we prepared this analysis, the department was unable to explain with any certainty why there is a wide variation in these costs. Therefore, in order to determine whether sites are maximizing the use of funds available for purchase of services, we recommend that the Legislature adopt supplemental report language requiring the department to include in the January 1, 1988 Long-Term Care Report to the Legislature information explaining the differences in purchase of service costs among Linkages sites and detailing how the department may be able to minimize these differences.

The following supplemental report language is consistent with this recommendation:

"The department shall include in the January 1, 1988 Long-Term Care Report to the Legislature information regarding differences in the purchase of service costs among Linkages sites. Specifically, the department should (1) explain why there are differences in purchase of service costs among the sites, (2) determine which cost differences are within the control of the department, and (3) develop a plan for minimizing those differences. The report should include a description of the anticipated effects of implementing this plan."

Expansion of HICAP Is Premature

We recommend that funds for expansion of the Health Insurance Counseling and Advocacy Program be deleted because there is no information available regarding the cost-effectiveness of the program. (Reduce reimbursements by $656,000.)

The budget proposes three changes in the Health Insurance Counseling and Advocacy Program (HICAP). First, it proposes to add one position in order to comply with certain statutorily mandated requirements. Second, the budget proposes to expand the program from 31 to 58 counties and to increase state staff for the program by two positions. This expansion will increase costs by $656,000. Third, the budget proposes to fund the *entire* program—$1.5 million—through reimbursements from the Department of Insurance (Insurance Fund). The program currently is supported by the General Fund. (We discuss the funding issue in Item 2290 of this *Analysis*.)

CALIFORNIA DEPARTMENT OF AGING—Continued

The HICAP was established by Chapter 1464, Statutes of 1984. The purpose of the program is to assist older persons in understanding the health insurance coverage provided under the federal Medicare program and coverage offered by private insurance companies. Currently, the Department of Aging contracts with 11 HICAP contractors, serving 31 counties, to provide (1) community education programs that explain Medicare policies and private health insurance programs, (2) informal advocacy with regard to Medicare and other health insurance benefit claims, and (3) legal representation with respect to Medicare appeals and related health insurance problems. In addition, the department is mandated to serve as a clearinghouse for information and materials relating to Medicare and other health insurance programs.

We believe that this proposal raises the following two issues:

Should the Program be Funded Through Reimbursements From the Insurance Fund? We see no reason why this program should not be financed from the Insurance Fund. This is because the Commissioner of Insurance has broad authority to ". . . inform the public . . ." on insurance matters, including insurance to supplement Medicare coverage.

Should the Program be Expanded? Current law requires that the department submit a report to the Legislature beginning January 1986 and annually thereafter, identifying ". . . the savings realized by the state and Medicare beneficiaries through the program." The department has done little to evaluate the effectiveness of this program. At the time we prepared this analysis, the department had not submitted the required reports for January 1986 and January 1987. As a result, we have no information on the cost-effectiveness of this program which would justify its expansion. The department is proposing to add one position to the program so that it will be able to fulfill the annual reporting requirement in the future.

Our concern is not with the goals of the program. However, without the cost-effectiveness information required by the Legislature, we have no basis on which to recommend *expansion* of the program. We do recommend approval of the one position requested by the department in order to provide the Legislature with the required cost-effectiveness information. Therefore, without prejudice to the goals of this program, we recommend that CDA's reimbursement from the Department of Insurance be reduced by $656,000.

Renewal of Federal Waiver for MSSP May Be In Jeopardy

We recommend that prior to budget hearings, the department submit to the fiscal committees information regarding the status of its request for renewal of the federal waiver for MSSP.

Since June 1983, California has operated the Multipurpose Senior Services Program (MSSP) as result of federal approval of the Medicaid Home and Community-Based Waiver. The waiver authorizes the state to serve a maximum caseload of 5,400 clients during 1986–87. Currently MSSP serves approximately 5,300 frail elderly persons over the age of 65.

The department is in the process of applying for renewal of the federal waiver for 1987–88 through 1989–90. In addition, the department is requesting to expand the program to serve 7,400 clients. The department has advised, however, that the new waiver request may not be approved by the federal government. Specifically, the federal Health Care Financing

Administration (HCFA) has identified the following three problems with the waiver proposal.

Expansion of MSSP Caseload. The state proposes to expand MSSP to a maximum caseload of 7,400 clients. The department advises that HCFA may not approve the expansion because preliminary studies indicate that the costs of community-based waiver programs—like MSSP—have not been offset by a reduction in Medicaid costs for institutional care. The primary reasons cited for this lack of net savings are that (1) the majority of the individuals served by the programs have a low-risk of institutionalization and (2) the services provided to the high-risk individuals do not significantly reduce their probability of entering an institution.

If HCFA does approve the caseload expansion, however, it will be necessary to augment CDA's budget (General Fund and Medi-Cal reimbursements from the Department of Health Services). This is because the budget as submitted to the Legislature assumes a caseload of 5,400 clients.

Continuation of MSSP Research. Under the terms of the waiver, California must annually provide HCFA with data demonstrating that the *Medi-Cal* per capita cost of care provided through MSSP does not exceed the per capita cost that would occur if MSSP did not exist. In addition to collecting this information, the department also has conducted research to determine the total *public* costs of the program relative to the costs of institutionalization and the impact of MSSP on the number of client hospital days, nursing home days, days of life, and functional levels of clients.

The department also has developed a Decision Support System (DSS) designed to increase the cost-effectiveness of the program by maximizing the amount of time a client stays in the community. One of the components of this system uses information from MSSP client assessments to determine a client's risk of institutionalization or dying within six months in comparison to the risk of all other MSSP clients. The department advises that this information might be used for care planning, maintaining a balanced caseload mix for case managers, or assessing whether a client may be ready for discharge from the program. In addition, the DSS contains a service award component that could be used to allocate client services, in particular In-Home Supportive Services (IHSS), so as to maximize the amount of time a client stays in the community.

Under the current waiver, the federal government shares in the costs of MSSP research. The department indicates, however, that in the future HCFA will only fund the research necessary to determine the cost-effectiveness of the program as required under the terms of the waiver.

Cost-Effectiveness of MSSP. As indicated above, the department must annually demonstrate that the program is cost-effective in order for MSSP to be funded through the waiver. The most recent data submitted to HCFA are based on MSSP operations in 1983–84 (the first year of the current waiver). According to HCFA, the data show that the total Medi-Cal costs of the program *exceeded* the estimated costs that Medi-Cal would have incurred without the waiver. Because this violates the terms of the waiver, the department must provide a satisfactory explanation for the cost overrun in order for HCFA to approve the new waiver request.

At the time this analysis was prepared, it was not clear how these issues would be resolved. Because renewal of the waiver is critical to the continuation of MSSP in 1987–88, it is important that the Legislature be informed as to the status of the waiver renewal. Therefore, we recommend that prior to budget hearings, the department submit to the fiscal committees information regarding the status of the federal waiver renewal for MSSP.

CALIFORNIA DEPARTMENT OF AGING—Continued

Future of MSSP Research Is Uncertain

We recommend that prior to budget hearings, the department submit to the fiscal committees specified information regarding proposed MSSP research for the budget year.

The department currently contracts with the University of California, Berkeley (UCB) to (1) conduct an analysis of the impact that MSSP has on the costs of long-term care (referred to as impact analysis) and (2) provide ongoing maintenance of MSSP's Management Information System (MIS) in conjunction with the development of the Decision Support System (DSS). In the current year, research costs total $650,000, of which the impact analysis costs approximately $120,000 while, the MIS/DSS totals $530,000.

As discussed above, the department has indicated that HCFA will no longer fund research in excess of that which is required under the terms of the waiver. The department estimates that at a minimum, $350,000 of the current contract costs are attributable to federal requirements. This means that only this amount of research costs potentially could be funded through the waiver in 1987–88.

The department indicates that in 1987–88 it plans to continue some additional research beyond that required by the federal government. However, it is not able to identify the specific research. In order that the Legislature will have the opportunity to review CDA's research proposal, we recommend that prior to budget hearings, the department submit to the fiscal committees information regarding its proposed MSSP research for the budget year. Specifically, the proposal should identify (1) research conducted in the current year which will be discontinued in the budget year and (2) research, in order of priority, which it proposes to continue in the budget year, including each task and its estimated costs and funding source.

Health and Welfare Agency
COMMISSION ON AGING

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

Requested 1987–88	$559,000
Estimated 1986–87	561,000
Actual 1985–86	373,000
Requested decrease (excluding amount for salary increases) $2,000 (−0.4 percent)	
Total recommended reduction	None

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4180-001-001—Support	General	$234,000
4180-001-890—Support	Federal	(207,000)
4180-001-983—Support	California Senior's	325,000
Total		$559,000

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 commission is authorized 7.6 personnel-years in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes an appropriation of $234,000 from the General Fund to support the CCA in 1987–88. This is a decrease of $2,000, or approximately 1 percent, from estimated current-year expenditures. The budget has been reduced by this amount as a "Special Adjustment."

Table 1
Commission on Aging
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Commission	$394	$443	$441	−0.5%
Senior Legislature	173	325	325	—
Totals	$567	$768	$766	−0.3%
Funding Sources				
General Fund	*$200*	*$236*	*$234*	*−0.8%*
Federal funds	*194*	*207*	*207*	—
California Senior's Fund	*173*	*325*	*325*	—

COMMISSION ON AGING—Continued

Total program expenditures in the budget year are projected at $766,000. This amount includes $234,000 from the General Fund, $207,000 in federal funds, and $325,000 from the California Senior's Fund. Table 1 shows CCA funding for prior, current, and budget years. This table has not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

Health and Welfare Agency

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

Item 4200 from the General Fund and various funds — Budget p. HW 26

Requested 1987–88	$126,868,000
Estimated 1986–87	120,116,000
Actual 1985–86	114,504,000
Requested increase (excluding amount for salary increases) $6,752,000 (+5.6 percent)	
Total recommended reduction	None

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4200-001-001—Support	General	$7,150,000
4200-001-890—Support	Federal	3,044,000
4200-001-139—Support	Drinking Driver Program Licensing	333,000
4200-001-243—Support	Methadone Program Licensing	335,000
4200-101-001—Local assistance	General	71,795,000
4200-101-890—Local assistance	Federal	38,773,000
Reimbursements	—	5,438,000
Total		$126,868,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Anti-Drug Abuse Act of 1986. Recommend that prior to budget hearings, the Department of Alcohol and Drug Programs (DADP) advise the fiscal committees on: (a) how it plans to allocate funds it will receive as a result of enactment of the Federal Anti-Drug Abuse Act and (b) steps it is taking to apply for additional funds which will be allocated based on need. 532
2. Anti-Drug Abuse Act of 1986. Recommend that prior to budget hearings, the DADP advise the fiscal committees how it plans to coordinate the use of the Anti-Drug Abuse Act funds with existing funds and programs. 532
3. ***Alcohol, Drug Abuse, and Mental Health (ADAMH) Block Grant. Increase Item 4200-101-890 by $8.2 million.*** Recommend that the budget be increased by $8.2 million in 533

federal funds because these funds are available to support local alcohol and drug programs. Further recommend that prior to budget hearings, the DADP advise the fiscal committees how it plans to use these funds for alcohol and drug programs.

4. School/Community Primary Prevention Program (S/CPPP). Recommend that prior to budget hearings, the DADP submit to the fiscal committees information regarding the number of youth that are to be served under the new S/CPPP contracts. 534

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 department is authorized 163.4 personnel-years for the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures from all funds of $126.9 million for alcohol and drug programs in 1987–88. This includes $78.9 million from the General Fund, $41.8 million from federal funds, $668,000 from the Drinking Driver and Methadone Program Licensing Trust Funds, and $5.4 million in reimbursements. Total expenditures proposed for 1987–88 are $6.8 million, or 5.6 percent, greater than estimated total expenditures in the current year, as shown in Table 1.

Table 1
Department of Alcohol and Drug Programs
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years			Expenditures			
Program	Actual 1985–86	Est. 1986–87	Prop. 1987–88	Actual 1985–86	Est. 1986–87	Prop. 1987–88	Percent Change From 1986–87
Alcohol—local assistance	44.1	44.6	45.7	$47,306	$49,324	$48,432	−1.8%
Drugs—local assistance	39.9	39.4	39.4	56,500	59,060	58,760	−0.5
Unallocated—local assistance	—	—	—	—	—	7,956	100.0
Subtotals, local assistance	84.0	84.0	85.1	$103,806	$108,384	$115,148	6.2%
State Operations	79.8	79.4	79.4	10,698	11,732	11,720	−0.1
Totals	163.8	163.4	164.5	$114,504	$120,116	$126,868	5.6%
Funding Sources							
General Fund				*$77,452*	*$79,017*	*$78,945*	*−0.1%*
Federal funds				*32,288*	*34,553*	*41,817*	*21.0*
Drinking Driver Program Licensing Trust Fund				*185*	*237*	*333*	*40.5*
Methadone Program Licensing Trust Fund				*314*	*335*	*335*	*—*
Audit Repayment Trust Fund				*—*	*539*	*—*	*−100.0*
Reimbursements				*4,265*	*5,435*	*5,438*	*0.1*

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

The budget proposes an appropriation of $78.9 million from the General Fund for DADP in 1987–88. This is a decrease of $72,000, or 0.1 percent, from current-year expenditures. The reduction was made as a Special Adjustment to the proposed budget-year expenditures for state operations. The proposed General Fund appropriation of $78.9 million includes $7.1 million for support of the department and $71.8 million for local assistance.

Table 2 shows, by funding source, the significant changes in expenditure levels proposed in the budget for 1987–88. The largest budget change proposed is an increase of $7,956,000 in federal funds, the Emergency Substance Abuse Block Grant, as the result of the enactment of the Federal Anti-Drug Abuse Act of 1986. The Anti-Drug Abuse Act is discussed later in this analysis.

Table 2
Department of Alcohol and Drug Programs
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*Federal Funds*	*Reimburse-ments*	*Special Funds*	*Total*
1986–87 expenditures (revised)	$79,017	$34,553	$5,435	$1,111	$120,116
Proposed changes:					
1. Cost adjustments					
a. Special Adjustment	−72	—	—	—	−72
2. Workload adjustments					
a. Increase Drinking Driver program	—	—	—	96	96
3. Program changes					
a. Establish "Learn to Say No" program	—	200	—	—	200
b. Emergency Substance Abuse Block Grant	—	7,956	—	—	7,956
c. SSI program reduction	—	−173	—	—	−173
d. One-time payment from Audit Trust Fund	—	—	—	−539	−539
e. One-time Women's Set-Aside	—	−719	—	—	−719
f. Friday Night Live program reduction	—	—	−26	—	−26
g. Increase Youth Coordination program	—	—	26	—	26
h. Other changes	—	—	3	—	3
1987–88 expenditures (proposed)	$78,945	$41,817	$5,438	$668	$126,868
Change from 1986–87:					
Amount	−$72	$7,264	$3	−$443	$6,752
Percent	−0.1%	21.0%	0.1%	−39.9%	5.6%

Expenditure Tables 1 and 2 have not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

ANALYSIS AND RECOMMENDATIONS

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

- ***"Learn To Say No" Program ($200,000).*** The department proposes to establish a "Learn To Say No" alcohol and drug prevention program targeted for youth.
- ***Friday Night Live Program Positions ($83,000).*** The department proposes to permanently establish two limited-term positions that it administratively established in the current year in order to administer the Friday Night Live program.
- ***Drinking Driver Program Positions ($96,000).*** The department proposes to establish 1.5 positions in the Drinking Driver Program Unit in order to meet increased program licensing and monitoring responsibilities.
- ***Accounting Office Staff ($106,000).*** The department proposes to redirect three positions from the Audit Services Section to the Accounting Section in order to fulfill increased accounting responsibilities. The Audit Services Section has achieved workload reductions due to the implementation of the Single Audit Act.

The Anti-Drug Abuse Act of 1986

On October 27, 1986, President Reagan signed the Anti-Drug Abuse Act of 1986. The act provides $1.2 billion in new budget authority in federal fiscal year FFY 87 for various alcohol and drug abuse programs, drug law enforcement, and drug interdiction efforts. Specifically, the legislation authorizes:

- $500 million for drug interdiction for FFY 87.
- $225 million annually for drug law enforcement for FFY 87, FFY 88, and FFY 89.
- $241 million for alcohol and drug treatment and rehabilitation for FFY 87.
- $200 million for alcohol and drug education and prevention for FFY 87 and $250 million annually for FFY 88 and FFY 89.
- $13.9 million for the Alcohol, Drug Abuse, and Mental Health Services (ADAMH) Block Grant program for FFY 87.

The new federal funds for law enforcement, education, and treatment will be allocated to the states using several different formulae, as follows.

Law Enforcement. The law requires that 80 percent of these funds be allocated to the states based on population, with no state receiving less than $500,000. State and local governments are required to provide at least a 25 percent match for the federal grants. The remaining 20 percent of the law enforcement funds will be distributed to public or private nonprofit agencies at the discretion of the Director of the Bureau of Justice Assistance (BJA).

The law enforcement funds can be used by state and local governments for drug enforcement efforts and treatment projects. For example, funds can be used to provide additional personnel, training, equipment, and facilities to strengthen state and local drug enforcement. In addition, state and local governments may use these funds to provide treatment programs for drug dependent offenders, to construct correctional institutions, and to eradicate plants which produce controlled substances. Funds may not be used for education activities or activities related to alcohol abuse, nor may the funds be used to supplant state or local funds.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

In order to receive funds under the grant program, the governor of each state must: (1) submit an application to the federal government and (2) designate a state agency for administering the grant program.

Education and Prevention. The law requires that approximately 82 percent of these funds be distributed to the states based on school-age population. Each state will receive at least 0.5 percent of the available funds. Of the amount allocated to the state, 30 percent will be provided to the governor for discretionary grants and contracts.

The remaining 70 percent of the funds are allotted to the state educational agency (SEA). The SEA may use up to 10 percent of the funds for training, technical assistance, demonstration projects, and special financial assistance to areas serving a large number of economically disadvantaged children. Administrative costs are limited to 2.5 percent.

The SEA is required to allocate the remainder of these funds to local educational agencies on the basis of the relative number of children in the school-age population that are served within their areas. These funds are to be used for alcohol and drug education and prevention activities including development and implementation of classroom curricula, family and school-based prevention programs, and counseling for parents and students.

States may carry funds over into FFY 88, but the grants cannot be used to supplant any nonfederal funds. In order to receive the funds, the governor and the SEA of each state must submit an application covering a three-year period to the Secretary of the Department of Education (DOE). In the application, the SEA must describe how it will coordinate the use of its funds with state law enforcement and alcohol and drug abuse prevention agencies.

Treatment and Rehabilitation. The law requires that the funds be allocated as follows:

- 23.5 percent distributed to the newly created Office of Substance Abuse Prevention, the Veterans Administration, and for treatment evaluation.
- 6.0 percent added to state allotments under the ADAMH Block Grant program.
- 70.5 percent for special state allotments for alcohol and drug treatment services.

As regards the special state allotments, the law requires that 45 percent of these funds be allocated to states based on population, with each state receiving at least $50,000. The remaining 55 percent will be awarded on the basis of need with the following factors being used in the formula:

- Population between the ages of 14 and 44 as a measure of the extent of demand for effective alcohol and drug abuse treatment services.
- Number of persons admitted to alcohol and drug programs as an indicator of the number of individuals who need assistance.
- Per capita personal income as a measure of a state's ability to pay for additional services. Current state spending on alcohol and drug programs may be used as a second indicator of a state's ability to pay for services.

There is neither a guaranteed minimum nor maximum award under this needs formula.

The federal law requires that the special state allotments be used to increase the availability of alcohol and drug treatment programs. States cannot use funds for inpatient hospital services or to provide assistance to for-profit organizations.

States may carry funds over into FFY 88, but may only use funds to supplement state and local funds. State administrative costs are limited to 2 percent of the grant.

In order to receive a special allotment under the grant program, each state must submit a statement along with its regular ADAMH Block Grant application requesting the funds. In addition to providing the required information for the needs formula, statements must include a description of how programs and activities funded by the new grants will be coordinated with existing programs and how the new programs will be evaluated.

Amount of Funds Available to California in FFY 87. Table 3 shows the most recent estimates of the allocations nationwide and to California. The table shows that California will receive at least $41.8 million. The state will receive an additional unknown amount of funds depending on how specified treatment and rehabilitation funds are allocated based on need and how drug enforcement discretionary funds are allocated. The table also shows which departments in California will receive the funds.

Table 3
Allocations of Federal Funds
Anti-Drug Abuse Act of 1986
FFY 87
(dollars in thousands)

Program	*Department*	*California*	*All States*
Law Enforcement			
Nondiscretionary Fund	Justice/Office of Criminal Justice Planning	$16,866	$178,400
Discretionary Fund		—[a]	46,600
Education and Prevention	Education/Governor's Office	15,599	161,046
Treatment and Rehabilitation			
Population based allocation	Alcohol and Drug Programs	7,954	73,260
Needs based allocation		—[b]	89,540
ADAMH Block Grant program[c]	Alcohol and Drug Programs/Mental Health	1,393	13,860
Totals		$41,812	$562,706

[a] Discretionary fund allocations have not yet been determined.
[b] Needs based allocations have not yet been determined.
[c] The Department of Health and Human Services may set aside $5.1 million of the additional ADAMH Block Grant for an evaluation of the block grant program. If such a set aside is made, the effect would be a corresponding reduction in the new ADAMH Block Grant allocations.

Amount of Funds Available in Subsequent Years. It is important to note that the President's budget for FFY 88 proposes to either reduce or eliminate funding for the Anti-Drug Act. As regards state and local law enforcement efforts, the federal budget proposes to discontinue funding for this grant program in FFY 88. In addition, the budget proposes to reduce state grants for education and prevention programs for FFY 88. Finally, the budget does not propose to continue grants to the states for treatment and rehabilitation programs in FFY 88. (The Anti-Drug Act does not authorize funding for treatment and rehabilitation programs for FFY 88 or 89.) To the extent that federal funds are either reduced or eliminated in FFY 88, there may be increased pressure on the Legislature

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

to appropriate General Fund monies in subsequent years to continue new programs which started in 1987.

Department Needs an Expenditure Plan for New Federal Funds

We recommend that prior to budget hearings, the department advise the fiscal committees how it plans to allocate to the counties $7.9 million in funds it will receive as a result of enactment of the Federal Anti-Drug Abuse Act. Further, we recommend that the department advise the fiscal committees of the steps it is taking to apply for additional federal funds which will be allocated to the state based on need.

As Table 3 indicates, California will receive at least $7.9 million for alcohol and drug abuse treatment and rehabilitation programs. The budget proposes an expenditure of this amount for 1987–88. (The department does not expect to receive these funds in the current year.) The state may receive additional funds once the federal government allocates funds based on need.

The state has a great deal of discretion in determining how to use these funds. The Anti-Drug Abuse Act, for example, does not specify how much of the grants are to be spent on alcohol versus drug programs, or the extent to which funds can be targeted for certain population groups like youth, women, or intravenous drug users who are at risk of being exposed to the Acquired Immune Deficiency Syndrome (AIDS) virus.

At the time this analysis was prepared, the DADP had not developed an expenditure plan for these funds. The department indicates, however, that it has established a process for determining how it will spend the additional federal grants once they are received by the state. It is currently obtaining comments from the county alcohol and drug program administrators and other leaders in the field as to how the funds should be used. In addition, the department has a survey, completed by county drug program administrators in March 1986, that identifies drug program needs, and it is currently funding the development of a needs assessment instrument for local alcohol programs.

Because the new federal law provides the state with the opportunity to address unmet programmatic needs, it is important for the Legislature to review the DADP spending plan in order to ensure that the funds will be used as efficiently as possible to reduce those needs. Therefore, we recommend that prior to budget hearings, the department advise the fiscal committees how it plans to allocate the funds to counties in order to address unmet programmatic needs. We further recommend that the department advise the fiscal committees of the steps it is taking to apply for additional federal funds which will be allocated to the state based on need.

Department Needs to Develop a Strategy For Coordinating the Use of Anti-Drug Abuse Act Funds With Existing Programs

We recommend that prior to budget hearings, the department advise the fiscal committees how it plans to coordinate the use of Anti-Drug Abuse Act funds with existing funds and programs.

The Anti-Drug Abuse Act requires the state, as part of its application for funds, to indicate how it will coordinate those funds with existing programs. We believe that the department should develop a strategy for coordinating the use of these funds with other funds and programs in order to avoid possible duplication of services.

For example, some of the new federal funds could be used to target services to intravenous (IV) drug users who are at risk of being exposed to the AIDS virus. If the department decides to use a portion of the funds for IV drug users who are at risk of AIDS, the department should coordinate its efforts with the Office of AIDS (OA) in the Department of Health Services, which is the lead state agency in addressing the AIDS epidemic. The OA proposes to continue to use a portion of its funding in 1987–88 to address the problem of IV drug abuse and AIDS through information and education activities. In Item 4260 of the *Analysis,* we recommend that the OA, in conjunction with various other departments including DADP and the State Department of Education (SDE), develop a comprehensive plan for addressing IV drug abuse and AIDS in terms of both treatment and education.

Therefore, in order to maximize the use of the new federal funds, we recommend that prior to budget hearings, the DADP advise the fiscal committees how it plans to coordinate the use of the new federal funds with existing funds and programs.

Unbudgeted ADAMH Block Grant Funds are Available to Support Local Alcohol and Drug Programs

We recommend that the budget be increased by $8.2 million in federal funds because these funds are available to support local alcohol and drug programs. We further recommend that prior to budget hearings, the department advise the fiscal committees how it plans to use these funds for alcohol and drug programs. (Increase Item 4200-101-890 by $8.2 million.)

The DADP receives federal ADAMH Block Grant funds in order to support alcohol and drug abuse prevention and treatment services. The department estimates that it will receive $33.8 million in ADAMH Block Grant funds for the budget year, of which $12.5 million will be allocated to the alcohol program and $21.3 million will support the drug program. The department estimates that in 1987–88 there will be an *additional* $7.2 million in ADAMH Block Grant funds available for the alcohol program and $1 million for the drug program. The budget, however, does not include these additional funds.

The department indicates that this unbudgeted amount exists because it was unable to expend all of the federal funds it received during the first year (1982–83) of the ADAMH Block Grant program. Since 1982–83, the department has carried over varying amounts in "surplus" federal block grant funds.

At the time we prepared this analysis, the DADP had not developed an expenditure plan for the $8.2 million in surplus funds. Because these funds could be used to support local alcohol and drug abuse prevention and treatment programs, we recommend that the budget be increased by $8.2 million in federal funds. We further recommend that prior to budget hearings, the department advise the fiscal committees how it plans to use these funds in 1987–88 including any General Fund match that is required.

School/Community Primary Prevention Program

The purpose of the School/Community Primary Prevention Program (S/CPPP) is to help prevent drug abuse among youth through the joint efforts of the local school and drug program administrators. At the state level, the State Department of Education (SDE) and the DADP are jointly responsible for monitoring the local programs. Chapter 456, Statutes of

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS—Continued

1985 (SB 110), requires our office to report on the implementation of the S/CPPP in the *1987–88 Analysis of the Budget Bill.*

In last year's *Analysis,* we made several recommendations for improving the performance of the S/CPPP. As a result of these recommendations, the 1986 Budget Act required the DADP to: (1) require a local match from schools or school districts participating in the program and (2) implement a formula for allocating funds to counties based on an objective measurement of need. In this analysis, we discuss the current status of the implementation of the S/CPPP and our findings and recommendations regarding the new funding requirements.

Current Implementation of the S/CPPP. The department issued a new Request for Proposal (RFP) for S/CPPPs in June 1986, and 18 counties were selected in October 1986 to receive funding for their programs. These counties are expected to start operation in January 1987. The 18 counties represent a decrease of 7 programs from the 25 S/CPPPs that were funded prior to the new RFP. Of the 18 counties, 14 previously received S/CPPP funds and 4 are new.

S/CPPP Local Match Requirement. In response to provisions of the 1986 Budget Act, the department adopted a local match requirement of 10 percent annually for each local S/CPPP. During the first year of funding, the local program can satisfy the match requirement with cash or in-kind contributions. In-kind contributions may include volunteer services, office supplies, donated equipment, or the use of building space. For the second year of funding, at least one-half of the 10 percent match must be a cash contribution. For the third and subsequent year(s) of funding, all of the 10 percent match must be a cash contribution.

Allocation of Funds Based on Need. The department allocated funds to local programs based on a combination of (1) various objective measurements of need and (2) the assessment of the RFP selection committee. The objective measurements of need were weighted 30 percent, while the assessment of the selection committee was weighted 70 percent.

The objective measurement of need consisted of the following formula: (1) total county population, (2) extent of poverty in the county, (3) drug arrests in the county, and (4) minority population in the county. This is the same formula that currently is used to allocate state and federal funds to local drug programs.

The assessment of the selection committee was based on the following four criteria: (1) program planning, (2) program design, (3) program administration, and (4) the budget.

Decrease in the Number of S/CPPPs May Result in Fewer Youth Being Served

We recommend that prior to budget hearings, the DADP submit to the fiscal committees information regarding the number of persons that are to be served under the new S/CPPP contracts.

As indicated above, 18 S/CPPPs are being funded starting in January 1987, which is a reduction of 7 S/CPPPs. The number of S/CPPPs has been reduced even though funding remained level at $1.1 million. There are two reasons why fewer S/CPPP contracts are being funded with the same amount of General Fund support. First, the department has increased the maximum award for each S/CPPP site from $84,000 to $90,000, an increase of 7.1 percent. Second, counties which scored high in terms of need or the assessment of the selection committee received additional funds above their prior funding levels.

As a result of the department's allocation formula, counties on average received higher awards than in the prior year. Furthermore, because the counties were required to provide a 10 percent match, there are new resources available to serve additional persons.

Despite these changes, we cannot determine whether more persons will be served in 1987. With the added local match, it is possible that the increase in total program funding may lead to an overall expansion of the program, with more people being served. The department, however, was unable to provide information regarding the number of people to be served under the new S/CPPP contracts. We recognize that a comparison of the number of people served by counties from year to year is difficult because some of the S/CPPPs are designed to serve a large number of people through media outreach, while others are designed to serve fewer people through different approaches. In the absence of data documenting the effectiveness of the program, however, it is important to have information regarding how many people, particularly youth, are being served by the program in order to determine whether the S/CPPPs funds are being used efficiently.

Therefore, we recommend that prior to budget hearings, the DADP submit to the fiscal committees information regarding the number of people that will be served under the new S/CPPP contracts.

Health and Welfare Agency

CHILD DEVELOPMENT PROGRAMS ADVISORY COMMITTEE

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

Requested 1987–88	$213,000
Estimated 1986–87	215,000
Actual 1985–86	170,000
Requested decrease (excluding amount for salary increases) $2,000 (−1 percent)	
Total recommended reduction	None

GENERAL PROGRAM STATEMENT

The Child Development Programs Advisory Committee (1) reviews and evaluates the effectiveness of child development programs and the need for children's services, and (2) provides policy recommendations to the Governor, the Superintendent of Public Instruction, the Legislature, and other relevant state agencies concerning child care and development.

The 25-member committee is staffed with an executive secretary, an analyst, and clerical support, for a total of 3.3 personnel-years in the current year.

18—75444

CHILD DEVELOPMENT PROGRAMS ADVISORY COMMITTEE—Continued

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes total expenditures of $213,000 from the General Fund for the support of the committee during 1987–88. This is $2,000, or approximately 1 percent less than the 1986–87 level due to a "Special Adjustment" reduction. Other than this reduction, the budget remains unchanged from the 1986–87 level.

Our analysis indicates that the amount requested is justified.

Health and Welfare Agency

DEPARTMENT OF HEALTH SERVICES

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

Requested 1987–88	$3,409,166,000
Estimated 1986–87	3,851,158,000
Actual 1985–86	3,701,107,000
Requested decrease (excluding amount for salary increases) $441,992,000 (−11.5 percent)	
Total recommended reduction	13,673,000
Recommendation pending	2,514,992,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4260-001-001—Department support	General	$128,498,000
4260-001-014—Department support	Hazardous Waste Control	3,996,000
4260-001-044—Department support	State Transportation	316,000
4260-001-129—Department support	Water Device Certification	(109,000)
4260-001-135—Department support	AIDS Vaccine Research and Development	(7,000,000)
4260-001-137—Department support	Vital Records Improvement Project	4,683,000
4260-001-203—Department support	Genetic Disease Testing	22,604,000
4260-001-335—Department support	Sanitarian Registration	130,000
4260-001-455—Department support	Hazardous Substance	1,302,000
4260-001-478—Department support	Mosquito Disease Surveillance	8,000
4260-001-710—Department support	Hazardous Substance Clean-up	3,169,000
4260-001-900—Department support	Local Health Capital Expenditure	142,000
4260-011-014—Department support	Hazardous Waste Control	27,978,000
4260-011-428—Department support	Hazardous Waste Management Planning	7,000,000
4260-011-455—Department support	Hazardous Substance	7,585,000
4260-011-710—Department support	Hazardous Substance Clean-up	11,771,000
4260-020-455—Department support	Hazarous Substance	942,000

4260-101-001—Medi-Cal local assistance	General	2,446,853,000
4260-105-001—Medi-Cal abortions	General	12,933,000
4260-106-001—Medi-Cal cost-of-living adjustments (COLAs)	General	2,791,000
4260-111-001—Public health local assistance	General	638,284,000
4260-111-137—Public health local assistance	Vital Records Improvement Project	520,000
Health and Safety Code Section 25330.5	Hazardous Site Operations and Maintenance	59,000
Welfare and Institutions Code Section 16707	County Health Services	2,450,000
Ch 376/84	Superfund Bond Trust	5,967,000
Ch 1247/85	General	109,000
Ch 1304/86	Hazardous Waste Control	152,000
Ch 1312/86	General	15,000
Ch 1405/86	General	75,000
Ch 1439/85	Hazardous Substance Clean-up	37,208,000
Ch 1462/86	AIDS Vaccine Research and Development	3,000,000
Ch 1463/86	General	3,050,000
Reimbursements		34,826,000
Family repayments		750,000
Subtotal		$3,409,166,000
4260-001-890—Department support	Federal	89,744,000
4260-005-890—Department support	Federal	210,810,000
4260-006-890—Department support	Federal	32,605,000
4260-011-890—Department support	Federal	4,252,000
4260-101-890—Medi-Cal local assistance	Federal	2,556,147,000
4260-106-890—Medi-Cal COLAs	Federal	2,791,000
4260-111-890—Public health local assistance	Federal	23,460,000
Total, all funds		$6,328,975,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

Department Support

1. ***Child Health and Disability Prevention (CHDP) Claims Processing. Reduce Item 4260-001-001 by $78,000 and Item 4260-001-890 by $132,000.*** Recommend reduction of $210,000 to reflect savings resulting from contracting out CHDP claims processing functions. 546
2. ***CHDP Technical Funding Error. Reduce Item 4260-001-001 by $699,000 and increase Item 4260-001-890 by $699,000.*** Recommend shift of funds to correct funding errors. 546
3. ***Administrative Appeals Technical Funding Error. Reduce Item 4260-001-001 by $318,000 and increase Item 4260-001-890 by $194,000.*** Recommend shift of funds to correct funding errors. 546
4. ***Equipment Overbudgeted. Reduce Item 4260-001-001 by $778,000.*** Recommend reduction of $778,000 to correct overbudgeting of equipment. 547

Licensing and Certification

5. Licensing Fees. Withhold recommendation on licensing and certification fees for 1987–88, pending receipt of a fee schedule from the department. 548
6. ACLAIMS Public Protocols. Recommend that the de- 548

DEPARTMENT OF HEALTH SERVICES—Continued

partment report during budget hearings on its proposed protocols for providing public access to licensing and certification information in ACLAIMS.

Public Health

7. Public Health Disengagement Proposal. Withhold recommendation pending receipt of implementing legislation and other specified information regarding the proposal. 554
8. Comprehensive Perinatal Services Program. Recommend that prior to budget hearings, the department identify how it intends to spend funds freed up as a result of implementation of the Medi-Cal comprehensive perinatal services program. 556
9. ***Childhood Injury Prevention and Surveillance (CHIPS) Program. Reduce Item 4260-001-001 by $90,000 and Item 4260-111-001 by $110,000.*** Recommend that the Legislature delete funds for the CHIPS proposal because its goals and objectives are already being accomplished with existing funding. 557
10. ***Day Care Health Training Proposal. Reduce Item 4260-001-001 by $71,000 and Item 4260-111-001 by $929,000.*** Recommend that the Legislature delete funds for the day care health training proposal because it duplicates current efforts in this area. 558
11. California Children's Services (CCS) Program Estimate. Recommend that prior to budget hearings, the department submit specified information regarding expenditure trends in the CCS program. 559
12. California Children's Services Program Estimate—Los Angeles County. Recommend that prior to budget hearings, the department provide further information regarding the Los Angeles County assumption. 561
13. California Children's Services Program Estimate—Therapy Services. Withhold recommendation pending additional information regarding payment for therapy services rendered to developmentally disabled children living in intermediate care facilities. 561
14. Neural Tube Defects Program. Recommend that prior to budget hearings, the department provide specified information regarding fees for the Neural Tube Defects program. 562
15. Medically Indigent Services Program (MISP). Recommend that prior to budget hearings, the department provide specified information related to implementation of the MISP data system. 564
16. MISP Funding. Recommend that prior to budget hearings, the department submit specified information regarding the need for services in the MISP. 566
17. Local Health Capital Expenditure Account (LHCEA). Recommend that prior to budget hearings, the department provide specified information on county capital expenditures. 568
18. Vital Records Projects. Recommend that prior to budget 568

hearings, the department provide implementation information about (a) the Vital Records Improvement project and (b) the Decorative Heirloom Birth Certificate program.

19. AIDS and Intravenous Drug Users. Recommend that prior to budget hearings, the Office of AIDS, with the assistance of the Department of Alcohol and Drug Programs, provide the Legislature with a plan to address the spread of the AIDS virus among intravenous drug users. 571
20. AIDS and Sexually Active Heterosexuals. Recommend that prior to budget hearings, the Office of AIDS provide the Legislature with a plan to address the spread of the AIDS virus among sexually active heterosexuals. 574
21. AIDS Funding Alternatives. Recommend that the California Medical Assistance Commission include in its report on funding options for community-based long-term care services specified information about AIDS. 575
22. ***AIDS Minority Treatment and Counseling Contracts. Recommend transfer of $600,000 from support (Item 4260-001-001) to local assistance (Item 4260-111-001).*** Recommend transfer because funds are more appropriately reflected in local assistance. 577
23. ***Childhood Lead Poisoning Prevention Program. Reduce Item 4260-001-001 by $87,000 and reappropriate $87,000 in statutory funding.*** Recommend (a) deletion of $87,000 requested from the General Fund for the Childhood Lead Poisoning Prevention Program and (b) reappropriation of the same amount from funds made available in Ch 481/86 because funds from the statutory appropriation could be made available in the budget year to offset General Fund program costs. 577
24. ***Governor's Council on Physical Fitness and Health. Reduce Item 4260-001-001 by $88,000.*** Recommend rejection of proposal to establish a state-level council on physical fitness and health because the department has failed to justify it. 578
25. Birth Defects Monitoring Program. Withhold recommendation on $3,247,000 (General Fund) for support of the Birth Defects Monitoring program pending receipt of an overdue report providing budget detail. 578
26. Statewide Cancer Registry. Withhold recommendation on $2,657,000 (General Fund) proposed for expansion of the cancer registry program because information regarding the proposal was not available in a timely manner. 579
27. Reimbursements from the California Occupational Safety and Health Act (Cal-OSHA) Program. Withhold recommendation on $2,888,000 proposed for support of the Hazard Evaluation System and Information Service and the state laboratories pending decisions by the Legislature concerning continued funding of the Cal-OSHA program. 579
28. ***Drinking Water Standards Development. Reduce Item 4260-001-014 by $338,000.*** Recommend a reduction of $338,000 from the Hazardous Waste Control Account for support of toxic chemical contamination inspections by the 581

DEPARTMENT OF HEALTH SERVICES—Continued

Sanitary Engineering Branch and the Sanitation and Radiation Laboratory because duplication of effort is likely to occur.

29. Drinking Water Standards Development. Recommend adoption of supplemental report language directing the Sanitary Engineering Branch and the State Water Resources Control Board to adopt a coordinated policy for assessing the feasibility of implementing treatment standards and discharge requirements for achieving clean water. 582
30. Implementation of Proposition 65. Recommend that the administration report at budget hearings concerning its plan for implementing Proposition 65. 585

Toxic Substances Control

31. Headquarters and Overhead Costs. Recommend adoption of supplemental report language directing the division to develop criteria for evaluating staffing needs for headquarters and oversight personnel. 589
32. ***Electronic Data Processing Positions. Reduce Item 4260-011-014 by $88,000 and Item 4260-011-710 by $108,000.*** Recommend reduction because current level of regional computer operations does not justify additional support personnel. 591
33. Hazardous Waste Control Account (HWCA) Fund Deficit. Recommend that the division report prior to budget hearings concerning its plan for eliminating the current-year deficit in the HWCA. 592
34. ***New Permitting Positions. Reduce Item 4260-011-014 by $783,000.*** Recommend reduction of $783,000 because the division has overestimated budget-year workload and has not accounted for current positions available for permitting activities. 594
35. ***New Positions for Policy Development. Reduce Item 4260-011-014 by $68,000.*** Recommend reduction because the division currently has sufficient staffing to develop the highest priority policies and procedures. 596
36. ***Land Disposal Restriction Program. Reduce Item 4260-011-014 by $58,000.*** Recommend reduction of $58,000 to reflect overestimates of costs associated with implementing new statutory requirements. 596
37. ***Hazardous Waste Facility and Hauler Disclosures. Reduce Item 4260-011-014 by $53,000.*** Recommend reduction of $53,000 to correct for overestimates of the cost to implement a new mandated disclosure program. 597
38. Hazardous Substance Account (HSA) Deficit. Recommend the division and the Department of Finance report prior to budget hearings concerning the administration's plan to eliminate the deficit in the HSA. 598
39. Bond Act Funds for Administration. Withhold recommendation on $14,940,000, pending receipt of overdue reports concerning bond act expenditures for the site mitigation program. 599

40. Long-Term Funding Shortfall in the Site Mitigation Program. Recommend division report prior to budget hearings regarding a plan for funding cleanup costs of toxic waste sites beginning in 1988–89. 601
41. Responsible-Party Collections. Recommend the division report prior to budget hearings concerning its plans for increasing responsible-party collections under the site mitigation program. 601

Medi-Cal Program

42. Medi-Cal Program Budget. Withhold recommendation on $5 billion ($2.5 billion General Fund) pending review of revised estimates in May. 606
43. Policy Reviews and Updates. Recommend the department report during budget hearings on savings that could be achieved through additional policy reviews and updates. 613
44. Fiscal Intermediary Contract. Recommend the department report during budget hearings on potential savings resulting from new fiscal intermediary contract. 614
45. ***Technical Budget Issues. Reduce Item 4260-101-001 by $6.3 Million and Item 4260-101-890 by $6.2 Million.*** Recommend reduction of $12.5 million to correct for (a) overbudgeting for Los Angeles County community health plan and (b) underbudgeting of savings from Social Security Administration identification of Medi-Cal beneficiaries with private insurance coverage. 615
46. Limitation on Expenditures. Recommend Budget Bill language prohibiting expenditures exceeding 3 percent of amount appropriated in any expenditure category and requiring notification to the Legislature before augmentations are approved for any category. 616
47. Changes in Rules and Regulations. Recommend Budget Bill language requiring notification of the Legislature of any rule change expected to cost more than $1 million. 616
48. Long-Term Care Rate Increases. Recommend the Department of Finance, as part of the May revision, provide an estimate of rate increases for long-term care. 617
49. ***Income and Eligibility Verification System (IEVS). Reduce Item 4260-101-001 by $1,850,000 and Item 4260-101-890 by $1,849,000.*** Recommend reducing by one-half the amount of eligibility worker time budgeted to follow up referrals under the IEVS because the 100 percent follow-up proposed by the department may not be cost-effective. Also recommend requiring the department to (a) test a variety of follow-up thresholds in 1987–88, (b) ensure that counties use automated follow-up to the maximum extent possible, and (c) report on the estimated savings that the IEVS will generate. 621
50. ***County Welfare Department Cost-of-Living Adjustments (COLAs). Reduce Item 4260-101-001 by $483,000.*** Recommend reducing amount proposed for retroactive funding of state's share of county granted COLAs to reflect a more recent estimate of the percentage COLAs actually granted. 622

DEPARTMENT OF HEALTH SERVICES—Continued

51. Productivity Standard Study. Withhold recommendation on $26,527,000 proposed from the General Fund for that portion of the costs of eligibility worker salaries and benefits that is directly tied to the outcome of a pending study of productivity standards. 623
52. ***Field Office Staffing. Reduce Item 4260-001-001 by $41,000 and Item 4260-001-890 by $78,000.*** Recommend reduction because positions are not justified by staffing standards. 626
53. ***Contractual Services. Reduce Item 4260-001-001 by $342,000 and Item 4260-001-890 by $373,000.*** Recommend reduction of overbudgeted funds for contractual services. 626

Audits and Investigations

54. Mini On-Site Review Program. Withhold recommendation on $679,000 ($276,000 General Fund) requested for mini on-site review program pending receipt of details on the proposal. 627
55. Prepaid Health Plan Quality-of-Care Reviews. Recommend that the department report on its plans to comply with new federal regulations requiring independent quality-of-care reviews for prepaid health plans that provide Medi-Cal services. 628

Department of Health Services

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GENERAL PROGRAM STATEMENT

The Department of Health Services has responsibilities in three 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 which license health facilities and certain types of technical personnel. Third, the department administers programs to regulate and control the use and disposal of toxic substances.

The department is authorized 4,287.3 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $3.4 billion from various state funds for support of the Department of Health Services programs in 1987–88. This is a decrease of $442 million, or 12 percent, below estimated current-year expenditures. The budget proposes expenditures of $6.3 billion from all funds for support of department programs in 1987–88, which is a decrease of $424 million, or 6.3 percent, below estimated current-year expenditures.

Table 1 shows the proposed budget, by program category, for 1987–88 and the two previous years.

Table 1
Department of Health Services
Expenditures and Funding Sources
1985–86 through 1987–88
(dollars in thousands)

	Actual	Est.	Prop.	Change	
Expenditures	*1985–86*	*1986–87*	*1987–88*	*Amount*	*Percent*
State operations					
Support—excluding toxics	$243,180	$271,274	$271,359	$85	—
Support—toxics	59,544	69,760	102,914	33,154	47.5%
Subtotals	$302,724	$341,034	$374,273	$33,239	9.7%
Special projects—excluding toxics	147,567	192,333	215,142	22,809	11.9
Special projects—toxics	448	32,605	32,605	—	—
Public health local assistance	1,127,337	1,127,976	665,464	−462,512	−41.0
Medi-Cal local assistance	4,825,732	5,058,709	5,041,491	−17,218	−0.3
Totals	$6,403,808	$6,752,657	$6,328,975	−$423,682	−6.3%
Funding sources					
General Fund	*$3,575,267*	*$3,711,120*	*$3,232,608*	*−$478,512*	*−12.9%*
Federal funds	*2,702,701*	*2,901,499*	*2,919,809*	*18,310*	*0.6*
Hazardous Substance Cleanup (Bond)	*36,951*	*10,901*	*52,148*	*41,247*	*378.4*
Hazardous Substance Account	*18,109*	*18,110*	*14,829*	*−3,281*	*−18.1*
Hazardous Waste Control Account	*7,085*	*27,203*	*32,126*	*4,923*	*18.1*
Genetic Disease Testing Fund	*16,199*	*23,543*	*22,604*	*−939*	*−4.0*
County Health Services	*2,180*	*2,450*	*2,450*	—	—
Local Health Capital Expenditure Account	*3,797*	*169*	*142*	*−27*	*−16*
Reimbursements	*47,616*	*49,364*	*34,826*	*−14,538*	*−29.5*
Other funds	*−6,097*	*8,298*	*17,433*	*9,135*	*110.1*

DEPARTMENT OF HEALTH SERVICES—Continued

The largest budget change proposed for 1987–88 is a decrease of $462.5 million in public health local assistance due to a proposal to (1) eliminate the County Health Services (AB 8) and several categorical public health programs and (2) transfer the associated local assistance funds ($477 million) to the counties as shared revenue.

ANALYSIS AND RECOMMENDATIONS

1. DEPARTMENT SUPPORT

The budget proposes expenditures for department support—excluding toxics—of $271.3 million (all funds) in 1987–88. These expenditures account for 4.2 percent of the department's budget. The Toxic Substances Control Division has its own budget item, and support for that division is discussed separately. (Please see Section 4.)

The department proposes 3,610.4 personnel-years in the budget year (excluding those assigned to toxics and special projects), a decrease of 5 personnel-years from the number of personnel-years authorized for the current year. Table 2 shows the personnel-years and expenditures proposed for department support by major program category.

Table 2

Department of Health Services Support—Excluding Toxics
Expenditures and Personnel-Years—All Funds
1985–86 through 1987–88
(dollars in thousands)

Program	Actual 1985–86	Est. 1986–87	Prop. 1987–88	Change From 1986–87 Amount	Change From 1986–87 Percent
Expenditures					
Public health	$101,803	$120,787	$117,425	−$3,362	−2.8%
Medical assistance	53,713	59,785	62,914	3,129	5.2
Licensing and certification	19,125	19,008	19,378	370	1.9
Audits and investigations	19,602	19,076	19,872	796	4.2
Administration and Director's office	48,937	55,284	55,692	408	0.7
Subtotals	$243,180	$273,940	$275,281	$1,341	0.5%
Distributed departmental services (Toxics)	—	−2,666	−2,592	74	2.8
"Special adjustment"	—	—	−1,330	−1,330	—
Totals	$243,180	$271,274	$271,359	$85	—
Personnel-years					
Public health	1,239.5	1,331.1	1,274.7	−56.4	−4.2%
Medical assistance	900.7	889.1	961.9	72.8	8.2
Licensing and certification	224.3	235.3	229.8	−5.5	−2.3
Audits and investigations	408.2	383.5	393.6	10.1	2.6
Administration and Director's office	754.2	776.4	750.4	−26.0	−3.3
Totals	3,526.9	3,615.4	3,610.4	−5.0	−0.1%

Table 3 illustrates the main components of the changes proposed in the department's support budget for 1987–88, excluding toxics and special projects. The request for 1987–88 is $85,000 above estimated 1986–87 expenditures. The budget includes a "special adjustment" reduction of $1.3 million, or 1 percent of the department's General Fund support appropriation.

Table 3
Department of Health Services Support
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1986–87 expenditures (Budget Act)	$126,435	$302,005
Adjustments, 1986–87		
1. Toxics transfer out		
a. Toxic Substances Control Division	—	−41,775
b. Other units	—	−936
c. SWCAP and pro rata	—	−595
Subtotals	—	−$43,306
2. Chaptered legislation		
a. Chapter 23/85	$3,938	$3,938
b. Chapter 1428/85	800	4,400
c. Chapter 1463/86	3,000	3,000
d. Chapter 1440/85	—	1,300
e. Chapter 1462/86	—	1,000
f. Other legislation	1,449	1,449
Subtotals	$9,187	$15,087
3. Other adjustments		
a. Retirement reduction	−1,519	−2,713
b. Unidentified	443	201
1986–87 expenditures (revised)	$134,546	$271,274
1. Baseline adjustments		
a. Back out chaptered legislation	−9,187	−15,087
b. Back out unidentified adjustment	−443	−201
c. Chapter 1463/86	3,050	3,050
d. Adjust distributed services	—	74
e. Expiration of limited-term positions	−376	−647
f. Birth defects monitoring base adjustment	397	397
g. Asbestos contract	−41	−41
h. Pipe permeation study reduction	−200	−200
i. Child Health and Disability Prevention claims processing transfer to local assistance	−282	−884
j. Overhead/equipment fund shift	669	—
k. Pro rata adjustment	—	442
l. Partial-year annualizing	226	262
m. San Francisco General Hospital AIDS reduction	−1,500	−1,500
n. Facility operations shift to toxics	—	−246
o. Unexplained	−9	102
2. Budget change proposals:		
a. Public health	3,621	10,869
b. Medical assistance	1,192	3,253
c. Licensing and certification	420	234
d. Audits and investigations	138	400
e. Administration and Director's office	856	1,138
3. "Special adjustment"	−1,330	−1,330
1987–88 expenditures (proposed)	$131,747	$271,359
Change from 1986–87 expenditures (revised)		
Amount	−$2,799	$85
Percent	−2.1%	—

DEPARTMENT OF HEALTH SERVICES—Continued

Claims Processing Contract Provides Savings

We recommend a reduction of $210,000 ($78,000 General Fund) to reflect savings resulting from contracting out CHDP claims processing functions. (Reduce Item 4260-001-001 by $78,000 and Item 4260-001-890 by $132,000.)

The budget proposes $884,000 ($282,000 General Fund) in the Medi-Cal fiscal intermediary item for continued support of a contract with Electronic Data Systems Federal (EDSF) for processing claims submitted under the Child Health and Disability Prevention (CHDP) program. Claims processing began under this contract on September 15, 1986.

In the materials submitted in support of the contract proposal, the department estimated net savings of $100,000 ($33,000 General Fund) in 1986–87 and $310,000 ($102,000 General Fund) in 1987–88. These amounts were based on the savings associated with eliminating 35 positions, less the cost of the contract. Accordingly, the budget for the current year was reduced by $100,000 ($33,000 General Fund).

The department has failed to reduce its 1987–88 budget to reflect the additional savings that will occur in 1987–88. Consequently, we recommend a reduction of $210,000 ($78,000 General Fund) because of additional savings resulting from contracting out CHDP claims processing functions.

CHDP Technical Funding Error Needs Correction

We recommend that the Legislature (1) reduce the General Fund appropriation for CHDP by $699,000 and (2) increase federal funds by $699,000 to correct funding errors. (Reduce Item 4260-001-001 and increase Item 4260-001-890.)

The budget proposes $2.1 million to support the CHDP program. This includes $1.5 million, or 70 percent, from the General Fund and $649,000, or 30 percent, from federal funds. In developing the budget for the CHDP program, the department reduced federal funding by $902,000 and increased support from the General Fund by the same amount, based on its evaluation of appropriate funding ratios for the program.

Our analysis indicates that the department incorrectly calculated its funding adjustment. The department indicates that the correct overall CHDP funding should be 63 percent federal funds and 37 percent General Fund. To correct the ratio between the funds, we recommend a reduction in the General Fund of $699,000 and a corresponding increase of $699,000 in federal funds.

Administrative Appeals Technical Funding Error Needs Correction

We recommend that the Legislature (1) reduce the General Fund appropriation for administrative appeals by $318,000, (2) increase federal funds by $194,000, and (3) increase reimbursements by $124,000 to correct funding of administrative appeals. (Reduce Item 4260-001-001 by $318,000, increase Item 4260-001-890 by $194,000, and increase reimbursements by $124,000.)

The budget proposes $1.3 million to provide support for administrative appeals. This amount includes (1) $700,000, or 55 percent, from the General Fund, (2) $364,000, or 28 percent, from federal funds, and (3) $214,000, or 17 percent, from reimbursements. In developing the budget for administrative appeals, the department made adjustments to the funding amounts to reflect changes in caseload projections for administrative appeals.

Our analysis indicates that the department incorrectly calculated the funding adjustments. Based on the caseload projections provided by the department, we determined that administrative appeals should be funded 30 percent from the General Fund, 44 percent from federal funds, and 26 percent from reimbursements. To correct the funding ratios so that they correspond with actual caseload, we recommend a reduction in the General Fund of $318,000, an increase in federal funds of $194,000, and an increase in reimbursements of $124,000.

Equipment Overbudgeted

We recommend that the Legislature reduce the General Fund appropriation for laboratory equipment by $778,000. (Reduce Item 4260-001-001.)

The budget proposes $4.3 million from all funds for equipment. This is an increase of $206,000, or 5 percent, over estimated current-year expenditures for equipment. The increase is attributable to the net effect of (1) funds requested in various budget change proposals ($436,000) and (2) a reduction due to the transfer of $170,000 in spending to the general expense category. Excluding these adjustments, the equipment budget proposed for 1987–88 is the same as the current-year amount.

In developing the budget for equipment, the department reduced the request for funds from the Genetic Disease Testing Fund (GDTF) because there were one-time purchases in the current year totalling $998,000 for laboratory equipment needed in the Newborn Screening and Neural Tube Defects programs. The department neglected, however, to reduce its overall funding request; instead the budget proposes augmentations of $778,000 to the General Fund appropriation and makes small adjustments to six other funding sources to offset the reduction in the GDTF.

The department has failed to provide justification for significant increases in its General Fund equipment budget. Therefore, we recommend that the Legislature reduce the General Fund appropriation for equipment by $778,000.

2. LICENSING AND CERTIFICATION

The Licensing and Certification program develops, implements, and enforces state standards to promote quality health care in over 5,000 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 $22.6 million ($10.7 million General Fund for support of the Licensing and Certification program (including administrative overhead) in 1987–88). This is an increase of $329,000, or 1.5 percent, above current-year expenditures.

DEPARTMENT OF HEALTH SERVICES—Continued

Workload Study Nears Completion

The *Supplemental Report of the 1986 Budget Act* requires the department to develop staffing standards for the Licensing and Certification Division to use in the 1987–88 budget process. In our *Analysis of the 1986–87 Budget Bill*, we noted that the existing staffing standards do not accurately reflect the actual time spent by surveyors in facilities. Consequently, the existing standards are not useful in identifying the staffing levels required to accomplish the division's mandated workload. We also noted that there are significant backlogs in both federal certification reviews and state licensing surveys. Updated staffing standards could be useful in allocating staff to reduce these backlogs.

The department is nearing completion of the workload study. It has conducted time studies to determine the actual amount of time spent in the field by surveyors for each type of certification or licensing review and is now in the process of revising its staffing standards based on the study. The revised standards should be available in March 1987.

The Department of Finance advises that it will request changes in the division's budget later this year to the extent they are justified by the study. At that time, we will provide our analysis of the revised workload standards and any staffing changes that are proposed.

Licensing Fee Proposal Overdue

We withhold recommendation on licensing and certification fees for 1987–88, pending receipt of a fee schedule from the department.

Current law requires the department to provide an annual report, by January 17, 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 mid-April 1987. Until the department completes this report, we are unable to make any recommendation regarding the fees for health facility licensing and certification.

Public Protocol Needed for Access to ACLAIMS Data

We recommend that the department report during budget hearings on its proposed protocols for providing public access to licensing and certification information in ACLAIMS.

Implementation of the Automated Certification and Licensing Administrative Information Management System (ACLAIMS) is nearing completion. The ACLAIMS will contain information for each long-term care facility on (1) deficiencies identified during inspections, (2) complaints, (3) citations, and (4) ownership.

The system has two parts: the district office system and the central operations system. Implementation of the district office system consists of five major phases: ownership and general data, complaints, citations, certification, and licensing. The department advises that licensing, the final phase of the district office system, should be in operation by the end of February. The central operations system, which will handle communication with the district offices and generate statewide summary reports, should be in operation on a limited basis by the end of February.

The department has indicated that decisions about public access and report generation will be made once the central operations system is running. Because part of the original justification for ACLAIMS was to provide a system by which consumers could gather information about various hospitals, clinics, and long-term care facilities, we recommend that the department report during budget hearings on the protocols it proposes to adopt for providing public access to the information in ACLAIMS.

3. PUBLIC HEALTH

The Public Health program provides state support for California's preventive health programs. To administer these programs, the department has established six units with the following responsibilities:

1. 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.

2. The ***Rural and Community Health 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 the Rural Health, Indian Health, and Farmworker Health programs, and (d) administers subvention programs and provides technical assistance in funding matters to local health departments.

3. The ***Office of AIDS*** is responsible for providing, contracting for, and coordinating services related to the AIDS epidemic. These services include information and education programs, pilot projects related to the efficiency and effectiveness of treatment, and surveillance of the epidemic.

4. 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.

5. 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.

6. 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

Department Support. The budget proposes $82.5 million for department support attributable to public health programs in 1987–88. (This amount excludes funding for special projects.) The requested amount is $1.5 million, or 1.8 percent, less than estimated current-year expenditures for department support. Table 4 displays staffing and operating support for each public health program in the current and budget years.

DEPARTMENT OF HEALTH SERVICES—Continued

Table 4
Public Health Support
Budget Summary—All Funds
1985–86 through 1987–88
(dollars in thousands)

	Personnel-Years				Expenditures			
Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change from 1986–87*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change from 1986–87*
Family health services	234.3	208.3	173.4	−16.8%	$18,977	$24,366	$21,645	−11.2%
Rural and community health	199.6	204.3	181.6	−11.1	11,453	12,568	16,797	33.6
AIDS	5.8	57.2	58.9	3.0	7,621	13,124	9,770	−25.6
Preventive medical services	179.7	186.2	179	−3.9	20,423	23,896	25,220	5.5
Environmental health	265.6	280.8	294.3	4.8	24,808	24,680	21,387	−13.3
Laboratory services	354.5	394.3	387.5	−1.7	31,451	35,448	35,909	1.3
Subtotals	1,239.5	1,331.1	1,274.7	−4.2%	$114,733	$134,082	$130,728	−2.5%
Special projects	187.2	382.9	401.2	4.8	148,015	224,938	215,142	−4.4
Totals	1,426.7	1,714.0	1,675.9	−2.2%	$262,748	$359,020	$345,870	−3.7%

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

- Automate the processing of vital records ($4.7 million from the Vital Records Improvement Project Fund).
- Expand the statewide cancer registry ($2.7 million General Fund).
- Implement AIDS vaccine programs established by Ch 1462/86 (AB 2404) and Ch 1463/86 (AB 4250) (increase of $2 million General Fund over the current year).

The major reductions in department support reflect:

- The elimination of a one-time appropriation to provide clean water to residents near the Stringfellow toxic waste site and to perform various health effects studies ($3.6 million in special funds).
- The administration's proposal to transfer various public health programs to the counties ($2.7 million General Fund).
- A technical error in budgeting the AIDS Alternative Test Site program ($3.9 million General Fund).
- Discontinuation of two AIDS projects ($1.7 million General Fund).

Table 5 details the budget changes proposed for each public health program in 1987–88.

Local Assistance. The budget proposes $663 million (all funds) in local assistance for public health services in 1987–88. This represents a decrease of $463 million, or 41 percent, below estimated current-year expenditures. Table 6 presents local assistance expenditures, by program, for 1985–86 through 1986–87.

The decrease proposed for local assistance is primarily due to the elimination of the County Health Services (AB 8) program and several categorical programs, combined with several smaller increases in funding. The administration proposes to eliminate the AB 8, Family Planning, Geneti-

Table 5
Public Health Support
Proposed 1987–88 Budget Changes
(dollars in thousands)

	Positions	*General Fund*	*All Funds*
Family health			
California childhood injury surveillance program	1.0	$88	$88
Health training for child care personnel	1.0	69	69
Transfer of CHDP claims processing to Medi-Cal local assistance	—	−282	−884
CHDP data processing reduction	—	−81	−814
Comprehensive perinatal health implementation	3.0	51	147
Transfer of categorical programs to counties	−36.5	−1,198	−1,198
Administrative adjustments	—	1,019	23
Subtotals	−31.5	−$334	−$2,569
Rural and community health			
Mono County cash-in	2.0	—	−$90
Vital records automation	7.2	—	4,686
Decorative heirloom birth certificates	—	258	258
Transfer County Health Services (AB 8) program to counties	−28.0	−980	−980
Administrative adjustments	—	35	—
Subtotals	−18.8	−$687	$3,874
AIDS			
Alternative test sites	—	−$3,938	−$3,938
San Francisco General Hospital	—	−1,500	−1,500
Cost-of-care study	—	−200	−200
AIDS vaccine research, Ch 1462/86 (AB 2404)	0.5	—	1,999
AIDS vaccine clinical trials, Ch 1463/86 (AB 4250)	—	50	50
Administrative adjustments	—	2	2
Subtotals	0.5	−$5,586	−$3,587
Preventive medical services			
Occupational health surveillance	—	—	($98)
Honey and infant botulism	—	$30	15
Staffing for toxic art supplies	1.5	72	72
Surveillance for childhood exposure to lead	—	275	100
Hazard evaluation system and information service	—	—	330
Resource recovery plant health risk assessment	2.5	—	146
Sudden infant death syndrome	—	80	80
Creation of Governor's council on physical fitness and health	1.0	87	87
Second-year expansion of cancer registry	—	2,657	2,657
Transfer of public health categorical programs to counties	−9.0	−333	−333
Statutory appropriations			
• Ch 1428/85	—	−800	−800
• Ch 1440/85	—	—	−1,300
• Other	—	—	−23
Miscellaneous base adjustments	—	287	287
Administrative adjustments	—	180	6
Subtotals	−4.0	$2,535	$1,324
Environmental health			
Radiation control program	11.6	$670	$670
Registration of food manufacturers	2.0	62	62
Surveillance of mosquitoborne disease	—	—	8
Registration of sanitarians	1.0	—	28

DEPARTMENT OF HEALTH SERVICES—Continued

Chemical investigations of toxics in drinking water	5.5	—	274
Water treatment devices certification	2.5	—	107
Staffing for toxic art supplies	1.0	−7	−7
Plague and viral encephalitis surveillance	—	−130	−130
Emergency clean water grants (Ch 1428/85)	—	—	−3,600
Completion of pipe permeation study	—	−200	−200
Reduction in equipment expenditures	—	−284	−284
Administrative adjustments	—	384	42
Subtotals	23.6	$495	−$3,030
Laboratories			
Plague and viral encephalitis surveillance	3.0	$133	$133
Asbestos in public buildings	—	200	200
Laboratory inspections for Medicare requirements	—	—	40
Chemical investigations of toxics in drinking water	1.0	—	54
Administrative adjustments	—	−109	27
Subtotals	4.0	$224	$454
Totals	−26.2 [a]	−3,353	−3,534

[a] The reduction in personnel-years is significantly higher than the position reduction shown here because of increased salary savings to fund merit salary adjustments.

Table 6
Public Health Local Assistance Expenditures and Funding Sources 1985–86 through 1987–88 (dollars in thousands)

Program	*Fund*	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Change From 1986–87 Amount*	*Change From 1986–87 Percent*	*Amount Proposed for Local Transfer*
A. Family health	All	$132,163	$137,914	$101,758	−$36,156	−26.2%	—
1. Family planning	General	34,129	34,155	—	−34,155	−100.0	$34,155
2. Maternal and child health	All	29,813	30,177	31,216	1,039	3.4	—
3. Genetically handicapped persons	All	5,820	6,001	—	−6,001	−100.0	6,529
4. California children's services	All	46,562	51,601	53,386	1,785	3.5	—
5. Child health and disability prevention	General	13,165	14,301	15,477	1,176	8.2	—
6. Genetic disease prevention	General	1,664	1,679	1,679	—	—	—
7. Primary care clinics	General	1,010	—	—	—	—	—
B. Rural and community health	All	976,750	969,568	546,395	−423,173	−43.7	—
1. Primary health care	General	8,345	9,673	—	−9,673	−100.0	9,355
2. County health services	All	968,405	959,895	546,395	−413,500	−43.1	423,959
C. AIDS	General	—	9,838	9,638	−200	−2.0	—
D. Preventive medical services	General	7,495	8,206	5,223	−2,983	−36.4	2,983
Totals	All	$1,116,408	$1,125,526	$663,014	−$462,512	−41.0%	$476,981
Funding sources							
General Fund		*$1,084,994*	*$1,101,246*	*$638,284*	*−$462,962*	*−42.0%*	
Federal funds		*30,783*	*23,460*	*23,460*	—	—	
Family repayments		*883*	*820*	*750*	*−70*	*−8.5*	
County Health Services Fund		*2,180*	*2,450*	*2,450*	—	—	
Local Health Capital Expenditure Account		*3,785*	—	—	—	—	

cally Handicapped Persons', Primary Care Clinics, Rural Health, Indian Health, Farmworker Health, Preventive Health Care for the Aging, and Dental Health programs ($477 million General Fund).

Table 7 reflects proposed budget changes affecting local assistance expenditures in 1987–88.

Table 7

Public Health Local Assistance
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1986–87 expenditures (Budget Act)	$1,073,888	$1,098,168
Baseline adjustments, 1986–87:		
1. Ch 1367/86 (AB 3933) Mono County	318	318
2. Ch 892/86 (AB 3216) medically indigent services	25,000	25,000
Caseload adjustments:		
1. California children's services	1,345	1,345
2. Genetically handicapped persons' program	−502	−502
3. Child health and disability prevention	1,197	1,197
1986–87 expenditures (revised)	$1,101,246	$1,125,526
Baseline adjustments, 1987–88:		
1. Delete Ch 1367/86 appropriation	−$318	−$318
2. Delete one-time cost-of-care study augmentation	−200	−200
Subtotals	−$518	−$518
Caseload adjustments:		
1. Genetically handicapped persons' program	$1,785	$1,785
2. California children's services	598	598
3. Child health and disability prevention	370	370
4. County medical services program	2,379	2,379
5. County health services (AB 8) population adjustment	1,191	1,191
Subtotals	$6,323	$6,323
Cost-of-living adjustment:		
County health services (1.53 percent)	$6,369	$6,369
Program change proposals:		
1. Vital records improvement project	—	$520
2. Child health and disability prevention services	$806	806
3. Child injury surveillance	110	110
4. Childcare personnel training	929	929
5. Eliminate programs and transfer funds to counties		
Preventive health care for the aging	−1,303	−1,303
Dental health	−1,680	−1,680
Family planning	−34,155	−34,155
Genetically handicapped persons' program	−6,529	−6,599
Rural health	−3,862	−3,862
Indian health	−2,996	−2,996
Farmworker health	−1,038	−1,038
Primary care clinics	−1,459	−1,459
County health services	−423,959	−423,959
Subtotals	−$475,136	−$474,686
1987–88 expenditures (proposed)	$638,284	$663,534
Change from 1986–87 (revised)		
Amount	−$462,962	−$461,992
Percent	−42.0%	−41.0%

DEPARTMENT OF HEALTH SERVICES—Continued

Proposed State Disengagement of Health Programs

We withhold recommendation on the administration's public health proposal pending receipt of the implementing legislation and details describing the proposal.

In 1987–88 the administration proposes to dramatically change the funding and administration of certain public health and indigent care programs. These programs include:

- The ***County Health Services (AB 8) program,*** which provides counties with funding for public health programs and indigent health care. This program was established in 1978 as a result of the loss of county property tax revenues upon enactment of Proposition 13. The amount of funding is annually adjusted for population growth and inflation.
- The ***Family Planning program,*** which funds contraceptive, sterilization, information, and education services to low-income persons whose incomes are higher than the Medi-Cal eligibility limit, and within 200 percent of the poverty level. This program currently serves approximately 500,000 individuals each year in 500 clinics statewide.
- The ***Primary Care Clinics, Rural Health, Farmworker Health, and Indian Health programs,*** which fund health clinics and other health services targeted towards underserved populations.
- The ***Genetically Handicapped Persons' program,*** which funds specialized medical care and rehabilitation services for adults with certain genetic diseases who are unable to pay the full cost of these services. In 1985–86, an average of 1,145 persons received services each month.
- The ***Preventive Health Care for the Aging program,*** which provides up to $60,000 annually on a 50/50 match basis to counties or local jurisdictions wishing to provide preventive health screening services to ambulatory individuals over age 60. Currently, programs operate in 21 counties and provide services to approximately 19,000 persons each year.
- The ***Children's Dental Disease Prevention program,*** which contracts with 36 counties or school districts to provide preventive dental health screening and education. Approximately 340,000 children are served by the program each year.

At the time this analysis was prepared, the administration had provided the Legislature with only a sparse outline of this proposal. In addition, the department had not drafted legislation to implement the proposal. In general, the proposal would eliminate all state support and all contractual and matching requirements associated with the categorical programs detailed above. The funds associated with the categorical programs would be allocated to the counties as general purpose revenue. The budget indicates that this new funding method will "allow counties to exercise increased discretion regarding the allocation of these funds as needed to meet local funding needs." The administration proposes the following specific funding adjustments:

- In 1987–88, the local assistance funding associated with the various eliminated programs, totaling $477 million, would be transferred to the counties. Table 6 details the amounts proposed for transfer in 1987–88.
- Beginning in 1988–89, one-quarter cent of state sales tax revenue would be transferred to the counties. We estimate that this could

amount to over $600 million.

- Beginning October 1, 1987, the state support associated with the transferred programs would be eliminated. This would result in a General Fund savings of approximately $2.7 million.

There may be some benefits to this proposal in that it provides counties with (1) increased fiscal flexibility, (2) more control over local needs, and (3) potentially increased revenues. Nonetheless, we have serious concerns about the proposal, primarily regarding the extent to which counties will be required to continue to provide public health and indigent care services.

We do not have enough information on this proposal to advise the Legislature whether, on balance, the benefits outweigh the potential problems associated with it. In order to make a decision on this proposal, the Legislature needs the answers to the following questions:

1. ***What will be the state's role in public health and indigent care?*** The administration has provided no rationale for eliminating state involvement in certain programs and continuing state involvement in other state-mandated, county-run programs, such as the Medically Indigent Services Program (MISP), California Children's Services (CCS), and the Child Health and Disability Prevention (CHDP) program. The administration also has not addressed whether it plans to continue to provide contract public health services to counties with populations under 40,000.

2. ***To what extent will counties have the authority to take advantage of the "flexibility" provided by this proposal?*** There are many statutes that require counties to provide public health and indigent care services. For example, Section 17000 of the Welfare and Institutions Code mandates counties to provide health services for those who cannot otherwise pay for them. To a large extent, AB 8 funding was established to pay for these services. The Health and Safety Code also includes many requirements for county public health services. It is our understanding that the administration has no plans to eliminate these requirements.

3. ***How will the state assure continued provision of services that are necessary to protect its own fiscal interests?*** Discontinuation of some services by counties may result in *state* costs. As an example, for various reasons some counties may not choose to fund family planning services. However, if counties do not provide these services, the state may experience increased costs in AFDC, Medi-Cal, and other programs affected by unwanted pregnancies.

4. ***How will the sales tax replacement revenues be distributed among the counties?*** According to the administration, the $477 million to be distributed in 1987–88 will be allocated to counties in a manner which ensures that each county is provided the same level of resources as it would have received in the absence of this proposal. No details are available from the administration as to the specifics of how this will be accomplished. In 1988–89 and subsequent years, however, it appears that a different allocation procedure is intended. According to the administration, several of the alternatives under consideration would require county voters to levy the one-quarter cent sales tax themselves, in which case the revenues would be returned to the counties in which they are collected. Under these circumstances, individual counties would not be treated identically, as some counties would receive larger proportionate increases than others. To the extent that local voters fail to approve the tax, moreover, the ability of individual counties to maintain county health program services would be impaired.

DEPARTMENT OF HEALTH SERVICES—Continued

5. ***How will the proposal affect calculation of the constitutional appropriations limit for counties and the state? How will expenditures be counted against the limit?*** The administration appears to believe that the funds can be transferred in such a way that the expenditures would be shifted from the state to counties, but the state and county appropriations limits would not be affected. We doubt this can be done because it is inconsistent with calculations of the limit performed after the enactment of the County Health Services (AB 8) program, which accounts for $423 million of the $477 million that would be transferred. Please see *The 1987–88 Budget: Perspectives and Issues* for further information regarding this issue.

We withhold recommendation pending receipt of the implementing legislation and additional information regarding the proposal.

A. FAMILY HEALTH SERVICES

Medi-Cal Comprehensive Perinatal Services Program Will Free Up Funds

We recommend that prior to budget hearings, the department identify how it intends to spend funds freed up as a result of implementation of the Medi-Cal comprehensive perinatal services program.

Chapter 1404, Statutes of 1984 (AB 3021), expands the scope of Medi-Cal perinatal services by providing additional reimbursement to physicians and other health care professionals for case management, nutrition counseling, and other ancillary services. Under the program, providers may receive additional reimbursement only if they enter into agreements with participating counties.

The budget for the Maternal and Child Health (MCH) Branch proposes one permanent and two limited-term positions and $151,000 ($53,000 General Fund) to implement the Comprehensive Perinatal Services program. These positions would provide consultation to counties, providers, and Medi-Cal staff. The department indicates that 11 counties will contract with the branch to implement the program. The Medi-Cal budget includes $2.9 million ($1.5 million General Fund) for AB 3021 services for 7,500 women.

AB 3021 Frees Up Maternal and Child Health Funds. In budgeting for AB 3021 services, the Medi-Cal funding estimate assumes that no new services will be provided as a result of the program. Instead, the estimate assumes that the Medi-Cal program will pay for services that are currently supported by demonstration grants from the MCH Branch using General Fund and federal MCH block grant money. For this reason, the Medi-Cal budget does not project any savings (from fewer days in neonatal intensive care units, for example) resulting from providing the new services. However, if this occurs MCH grant funds will be "freed-up" for other purposes. Table 8 details the types of grants funded in the current year and proposed to be funded in 1987–88. There is no change in the distribution of funding between the two years. The department has not been able to tell us (1) which MCH grant categories are affected and (2) how it intends to use the freed-up funds.

We recommend that prior to budget hearings, the department provide the following additional information regarding the AB 3021 program:

- Which grant categories will be affected by implementation of AB 3021?
- To what group and in what way does the department plan to target freed-up funds?

Table 8
Maternal and Child Health (MCH) Grants
Proposed Expenditures by Program
1986–87 (Estimated) and 1987–88 (Proposed)
(dollars in thousands)

Type of Grant	*General Fund*	*Federal Funds*	*All Funds*
County allocations	$660	$1,281	$1,942
County perinatal programs	374	725	1,099
Community-based comprehensive perinatal services	4,537	8,807	13,344
Data	340	661	1,001
Diabetes in pregnancy	315	612	927
High-risk infant follow-up	1,272	792	2,064
Perinatal regionalization	1,022	583	1,605
Pre-term labor prevention	382	741	1,123
Infant dispatch	211	22	233
Special projects	656	1,273	1,929
Totals	$9,769	$15,497	$25,267

Governor's Children's Initiative Duplicates Current Services

As part of the Governor's Children's Initiative, the administration proposes two new programs within the Maternal and Child Health Branch: the day care health training program and the Childhood Injury Prevention and Surveillance (CHIPS) program. Our analysis indicates that both of these programs are already being accomplished with existing funding. Our more detailed comments on each of these proposals follow.

1. Childhood Injury Prevention and Surveillance Program

We recommend that the Legislature delete $200,000 for the proposed new Childhood Injury Prevention and Surveillance program because its goals and objectives are already being accomplished with existing funding. (Reduce Item 4260-001-001 by $90,000 and Item 4260-111-001 by $110,000.)

The goal of the Childhood Injury Prevention and Surveillance (CHIPS) program is to decrease the morbidity and mortality resulting from childhood injuries. The budget proposes $200,000 to implement this program, $90,000 of which is state support and $110,000 is local assistance. The program's objectives are to:

- Provide a focus in the department for injury prevention activities and coordinate with other state agencies regarding childhood injuries.
- Provide a statewide forum for the dissemination of research.
- Develop background information and recommendations for statewide surveillance of injuries.
- Promote, fund, and evaluate local childhood injury demonstration projects.

Our review indicates that the Maternal and Child Health (MCH) Branch has been contracting for many of the services proposed under this new program since October 1984. In fact, a number of the proposed objectives have already been accomplished. For example, tasks set forth in contracts effective from November 1985 through June 1987 include:

- Assessing the child injury surveillance (CIS) activities of at least 40 public health departments and at least 40 community health centers.

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- Developing and distributing at least 300 copies of CIS program models in California.
- Providing on-site technical assistance and support to at least 15 public health agencies implementing CIS programs and to 15 other health care centers.
- Providing written recommendations on a statewide injury surveillance system.

The department plans to extend this contract until June 30, 1988 using MCH grant funds. The activities will include:

- Developing a statewide injury surveillance system.
- Developing a prototype for an annual publication that will set forth and analyze data from the surveillance system.
- Continuing to consult with selected county health departments.

The $200,000 requested for the children's initiative would be in addition to the funds proposed for continuing the existing contract.

We are unable to identify how the contractor's work is significantly different from the new program proposed by the administration. The effect of the proposal is to fund counties for work that at least 40 of them are already doing.

Because injuries are the leading cause of death among children (and adults, as well, up to the age of 44) and result in high social costs due to lost years of life, we believe that this is an important area of focus for the department. However, the CHIPS program is already being accomplished with existing resources. Therefore, we recommend that the funds proposed for the program in the budget year be deleted.

2. Day Care Health Training Proposal Premature

We recommend deletion of $1 million for the day care health training proposal because it is duplicative of current efforts in this area. (Reduce Item 4260-001-001 by $71,000 and reduce Item 4260-111-001 by $929,000.)

The budget proposes $1 million to provide health training for day care personnel in 1987–88. The $1 million includes $929,000 in local assistance and $71,000 in state support. The goals of this program are to (a) "elevate the consciousness and involvement of local health departments" in child care and (b) provide health training to targeted child care providers. Specifically, the proposal entails:

- ***Developing an administrative manual to guide the involvement of public health agencies in day care.*** In order to do this, the DHS plans to conduct surveys to (a) identify models of collaboration between day care providers and public health agencies, (b) determine what county maternal and child health directors are doing to collaborate with day care providers, and (c) determine what day care centers perceive to be their health and safety needs.
- ***Selecting contractors to provide training in selected regions.*** The DHS plans to establish an advisory group in order to develop goals for training and selection criteria for trainers, select regions where the training will occur, and develop a list of potential trainers.

In our review of this proposal, we found that the State Department of Education (SDE) is *already* in the process of determining the need for day care health training. Chapter 1581, Statutes of 1985 (SB 862), requires the SDE to convene a task force that will make recommendations for a statewide child health day care training program in a report due September 30, 1987. The act provides the task force with $50,000 in consulting funds to:

- Survey existing child health care training curricula.
- Develop a child health care training curriculum.
- Determine the most efficient and cost-effective method of delivering training statewide.
- Determine whether it is feasible to require training as a condition of licensure.
- Determine the feasibility of providing health care training for family day care operators.

The DHS is aware that its proposal overlaps with the timetable set up by SB 862. It has obtained a preliminary commitment by the SDE that it will be represented on the task force and that the DHS training program will be surveyed by the consultant.

Nonetheless, we believe that the DHS proposal is premature, given the mandate of SB 862, and may result in inefficiencies in health care training for day care personnel. Our particular concerns are that:

- Both departments plan to perform similar surveys of day care operators.
- The SB 862 contractor is being paid to develop a statewide curriculum, while the DHS is implementing its own curriculum.
- The task force may find that there are more cost-effective or appropriate ways for day care providers to be trained than the DHS proposal.

Because of this duplication, we recommend that the Legislature delete funds for the program.

California Children's Services Program Defies Estimation

We recommend that prior to budget hearings, the department submit specified information regarding expenditure trends in the California Children's Services program.

The California Children's Services (CCS) program provides medical diagnosis, treatment, and therapy to financially eligible children with specific handicapping conditions. The program is jointly run by the state and the counties. Medi-Cal pays for services provided to children who are also eligible for Medi-Cal.

The budget estimates total expenditures for CCS at $65.2 million in the current year. This is an increase of $1.7 million, or 2.7 percent, over the amount appropriated for the program in the 1986 Budget Act. In 1987–88, the budget estimates total expenditures for CCS at $67.5 million, an increase of $2.3 million, or 3.5 percent over estimated expenditure levels in the current year.

Actual Expenditures for CCS Have Varied Significantly From Year to Year and From Expenditure Estimates. Table 9 compares budgeted, estimated, and actual expenditures in the CCS program from 1981–82 through 1986–87. The table demonstrates the following points:

- ***Growth in the CCS program has fluctuated significantly from year to year.*** In 1982–83, expenditures grew $9.9 million, or 20 percent. The following year, they declined by $7 million, or 12 percent, probably due to a shift of cases from CCS to Medi-Cal in that year. Since then, actual expenditures have been growing: 4 percent in 1984–85 and 15 percent in 1985–86. These differences in program growth are unexplained.

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- ***Actual expenditures have been significantly different than estimates and appropriations, but generally much lower.*** Every year except one between 1981–82 and 1985–86, actual expenditures have been lower than the amount available by as much as $9.5 million, or 15 percent. In 1982–83, they were $3.7 million, or 7 percent, over the original budgeted amount. Even the May revision estimate of current-year spending, which is prepared during the third quarter of the fiscal year, has been as much as $5 million (9 percent) above actual expenditures, and $3.2 million (5 percent) below actual expenditures.

Table 9
California Children's Services Program
Comparison of Budget Estimates to Actual Expenditures
All Funds Excluding County Funds
1981–82 through 1986–87
(dollars in millions)

		Estimates of Current-Year Spending			*Difference Between Actual and Budget*	
Fiscal Year	*Budget Appropriation*	*November*	*May*	*Actual Expenditures*	*Amount*	*Percent*
1981–82	$53.3	$52.3	$52.1	$48.9	−$4.4	−8.3%
1982–83	55.1	57.2	59.1	58.8	3.7	6.7
1983–84	60.6	62.0	56.8	51.8	−8.8	−14.5
1984–85	63.3	61.7	56.9	53.8	−9.5	−15.0
1985–86	65.3	63.1	58.8	62.0	−3.3	−5.1
1986–87	63.5	65.2	—	—	—	—

Source: Department of Health Services

Program Information Raises More Questions Than It Answers. The department provided some preliminary information about the program by diagnosis. Rather than clarifying variances in expenditures, it raises even more questions about the program:

- Between 1983–84 and 1985–86, users of services increased by 4.4 percent, while the treatment cost per user increased 58 percent. The department is not able to answer definitively why this large increase occurred.
- Although treatment costs per user increased a total of 58 percent between 1983–84 and 1985–86, these costs *decreased* almost 50 percent in 1984–85 and *increased* over 100 percent in 1985–86. This could be explained by the impact of one or two large cases, but the department does not yet have enough information to verify this.
- Between 1983–84 and 1985–86, *billed* amounts by diagnosis increased about 16 percent, while *paid* amounts increased by 25 percent. The department has no conclusive explanation for why the state would be paying proportionately more than it was billed.

Inherent Forecasting Problems. Due to the nature of the program, there are numerous problems in forecasting CCS expenditures. For example:

- Counties have considerable flexibility in administering the program and setting spending priorities.
- It is difficult to detect trends in the program because counties only submit data quarterly.

- County billing backlogs can delay expenditures from quarter to quarter or even from year to year. The department has no way to estimate the lag between the time a claim is submitted and when it is paid, as it varies from county to county, and even within each county, depending on the particular fiscal year. Los Angeles County, in particular, has significant expenditure variations.

By the time of the May revision the department hopes to improve its expenditure estimates by (1) obtaining more frequent expenditure reports from Los Angeles County and (2) analyzing expenditure, user, and caseload data, by diagnosis and, perhaps, by county.

Because the current program estimating model is rather imprecise and would benefit from some additional information, we recommend that prior to budget hearings, the department inform the Legislature on the status of its examination of expenditure trends in the program. This information should, at a minimum, answer the following questions:

- Have more frequent reports from Los Angeles County improved the department's ability to project the county's expenditure trends?
- What is the reason for overall increases and large fluctuations in treatment costs per user?
- Why are paid expenditures increasing faster than billed expenditures?

Los Angeles County Assumption Appears Arbitrary

We recommend that prior to budget hearings, the department provide further information regarding the Los Angeles County assumption.

The CCS expenditure estimates presume that the Los Angeles County program will spend no more in the current year or the budget year than it spent in 1985–86. According to the estimates, this assumption results in General Fund savings of $1.2 million in the current year and $4.7 million in 1987–88. Although the forecasting model is not as accurate as the department would like it to be, actual expenditure data from the first and second quarters of 1986–87 for Los Angeles County do not appear to reflect this flattened expenditure assumption.

Because this assumption appears to be arbitrary, we recommend that the department, prior to budget hearings, explain whether it will continue this assumption in the May estimate and, if so, with what justification.

Therapy Expenditures Controversial

We withhold recommendation on the proposal regarding payment for therapy services rendered to developmentally disabled children living in intermediate care facilities pending resolution of interagency disagreements on funding.

The November estimate projects that the CCS program will begin to experience additional costs for physical and occupational therapy (PT and OT) services and equipment in its Medical Therapy Units (MTUs), which are located in public schools. This new level of service is to be provided to children who attend school and live in one of two types of intermediate care facilities for the developmentally disabled. The department projects that there are a total of approximately 1,029 children in these facilities, 68 percent of whom will use therapy services, equipment, or both. These additional costs amount to $228,000 in the current year and $805,000 in the budget year.

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Our review indicates that it is not clear that CCS should be paying for these services. The department advises that it is proposing to pay for these services beginning in the current year because it has recently determined that PT and OT are not being provided at the facilities. However, there is no reason why, if the services are medically necessary, Medi-Cal could not pay for them in the facility. If the services are *not* medically necessary, then it is the responsibility of the local school district to pay for the services.

This funding issue is part of long-standing disagreements over which agencies should pay for services to children with developmental disabilities. The primary state agencies involved are the Department of Education (SDE), the Department of Developmental Services (DDS), CCS, and Medi-Cal. Currently, CCS and the DDS are negotiating an interagency agreement. The CCS program is also in the final stages of adopting regulations that clarify its intent that it will only pay for services in the MTU that are medically necessary. Medi-Cal has not been involved in the interagency agreement or the development of regulations.

Until the affected agencies develop agreements regarding payment for these services, we believe that an augmentation to the CCS program is premature. Accordingly, we withhold recommendation pending additional information regarding:

- Why Medi-Cal does not pay for providing therapy services in the facilities.
- The status of CCS's interagency agreement with the DDS.
- The status of CCS's regulations regarding MTUs.
- CCS's plans for adopting an overall comprehensive agreement between all of these agencies.

Neural Tube Defects Program is Not Solvent

We recommend that prior to budget hearings, the department provide specified information regarding fees for the Neural Tube Defects program.

Neural tube defects (NTDs) are severe birth defects that are frequently responsible for fetal death, infant death, and serious disabilities. The NTD screening program attempts to detect these and other severe defects such as Down's syndrome. The program also provides counseling for affected pregnant women and their families. The screening program has been in effect since April 1986. The department indicates that the program performed 37,000 tests in 1985–86 and expects to perform approximately 190,000 tests in 1986–87 and 250,000 in 1987–88. In the first 80,000 tests, the program detected 54 NTDs and 9 cases of Down's syndrome.

The NTD program is financed through the Genetic Disease Testing Fund (GDTF). Women receiving the test must pay a $40 fee, which is deposited into the fund. Medi-Cal pays for testing of eligible women. The Newborn Screening program, which tests newborns for certain treatable diseases, is financed in a similar manner from the fund. Table 10 shows the revenues and expenditures of the GDTF by program for the current and budget years. Although the expenditures are higher than the revenues in both years, the fund has been solvent due to the availability of interest earnings and funds rolled over from 1985–86.

Table 10
Genetic Disease Testing Fund
Revenues and Expenditures by Program
1986–87 and 1987–88
(in thousands)

	Revenues	Expenditures	Difference
1986–87			
Neural tube defects	$6,652	$12,135	–$5,483
Newborn screening	11,536	11,408	128
Totals	$18,188	$23,543	–$5,355
1987–88			
Neural tube defects	$9,283	$11,666	–$2,383
Newborn screening	12,228	10,938	1,290
Totals	$21,511	$22,604	–$1,093

The table indicates, however, that only the NTD program is operating at a deficit. The budget projects a $5.5 million deficit for the program in 1986–87 and a $2.4 million deficit in the budget year. The reduction in the deficit is due to (1) increases in the number of tests performed and (2) a proposed increase in fees from $40 to $47 on July 1, 1987. In contrast, the Newborn Screening program shows a surplus of $128,000 in the current year and $1.3 million in 1987–88. In effect, the Newborn Screening program is subsidizing the NTD program in the budget year. The budget does not propose any reductions to the fees in the Newborn Screening program although the projected surplus suggests reductions would be appropriate.

The 1986 Budget Act requires the DHS to establish fees for the NTD program that would cover the variable costs and a portion of the fixed costs. The department has not met this requirement for setting the fees for the NTD program. Apparently, the amount of the fee increase proposed in the budget was based on ensuring the overall solvency of the GDTF, rather than covering the costs of the NTD program. Because the program is still changing and expanding, the department has not been able to determine the fixed costs or the variable costs per test.

We believe the department's fee increase proposal is premature. It needs more precise information about costs of the NTD program before it can accurately assess what the testing fee should be. This is particularly true in light of the fact that the department plans to change laboratory testing procedures in the near future, due to the test having detected fewer NTDs than would be expected in the population. This is likely to increase the amount of follow-up testing required, thereby changing the program's costs.

The department is currently compiling information about the NTD program that may shed light on some of these fiscal issues. Therefore, we recommend that prior to budget hearings, the department provide the following information in regard to the NTD and Newborn Screening programs:

- What is the fixed cost of the NTD program and what is the variable cost of each test?
- What fee should be charged in order to make the NTD program self-sufficient? Will the costs and revenues of the program be changed substantially by the planned change in the test?
- Should the fee for the Newborn Screening program be lowered?

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B. RURAL AND COMMUNITY HEALTH SERVICES

MISP Data System's Poor Implementation Record May Continue

We recommend that prior to budget hearings, the department provide specified information related to implementation of the Medically Indigent Services program (MISP) data system.

In 1982, Medi-Cal reform legislation transferred the responsibility for the medically indigent adult (MIA) population from the Medi-Cal program to the counties. Since that time, there has been a large gap between information *desired* about this population and the information *available*.

Soon after the transfer of responsibility for this population the Legislature passed ACR 27 (Resolution Ch 122/83), which requested our office to comment on the department's information system on the MISP with respect to its:

- Timeliness for the budget process.
- Capacity to measure the frequency of utilization by eligibles by service.
- Capacity to measure access to services by eligibles with respect to location of and comprehensiveness of services available at facilities, as well as transportation to them.

The information system administered by the department is inadequate for these purposes. This is largely because (1) it does not collect client-specific data, (2) counties do not define or collect data uniformly, and (3) there are significant time lags in collecting the data.

The Legislature has recognized these problems and in the 1984 Budget Act appropriated funds to set up a new data system that would answer these fundamental questions. This new data system is still not fully operational. The $1 million earmarked for county implementation and portions of the $500,000 earmarked over three years for system development have been reappropriated twice since that time. Most recently, the 1986 Budget Act contains language requiring implementation of the system to begin by November 1, 1986, and requests a report on its implementation by March 1, 1987.

At the time we prepared this analysis, the MISP data system was being implemented on schedule with the 1986 Budget Act requirements. Seventeen of the 28 counties receiving MISP funds (the remaining 30 counties with fewer than 300,000 people receive services through the state-administered County Medical Services program in lieu of MISP funds) had signed contracts for state funds that would assist them in implementing the data system. These counties represent 35 percent of the MISP funds. The remaining 11 counties receiving MISP funds have chosen not to participate in the data system.

What Information Will the Legislature Get From the Newly Implemented System? According to the MISP data system contractor, the goals and objectives of the system are to:

- Provide the state with timely and accurate data on the performance and efficiency of county MISPs.
- Provide counties with information to enable efficient management of county MISPs.
- Provide information necessary to assess the impact of county MISPs.

The system will provide billing and medical information for individual county patients using a unique patient identifier. Table 11 displays the system's data elements.

Table 11
Medically Indigent Services Program
Data Elements Collected
For Each Patient

Registration	*Inpatient Services*	*Outpatient Services*
Birth date	Provider number	Provider number
Sex	Admission/discharge date	Service date
Race/ethnicity	Discharge diagnosis	Type of procedure/service
Zip code	Procedures performed	Expenditures
	Expenditures	(amount billed plus
	(amount billed plus	county expenditures)
	county expenditure)	

How Do These Goals and Objectives Address the Concerns of ACR 27? Barring any severe implementation problems, by January 1988 the system should be able to answer, on an ongoing basis, at least a portion of the questions raised by ACR 27. For example, the system will be able to answer questions related to frequency of utilization of services by eligible persons, by type of service.

What Information Will the System Not Provide? The data system as planned will not provide a number of key pieces of information. For example, the system will not:

- Provide information about 65 percent of the MISP dollars from counties such as Los Angeles, San Francisco, and Ventura. Because of a budget-year proposal to eliminate the County Health Services (AB 8) program, these counties may also no longer be required to report on the services they are providing with AB 8 funds. As a result, in these counties there may be almost no information available about the provision of indigent health care.
- Differentiate, in many counties, between services funded with MISP funds and services funded from other funds.
- Provide information about some characteristics of persons receiving county health services, such as income, family size and composition, available insurance coverage, or employment status.
- Provide information on the actual cost counties incur in providing services. The system assumes that county expenditures plus the amount billed to patients equals the cost of providing services.

Finally, data collected by the system will not provide information about the extent of the need for indigent care services, or the people *not* served and the services *not* provided. These types of "access to care" questions are very difficult to answer definitively, even with a good information system. However, with some additional analysis, the DHS may be able to give some indication about variability in access to services. For example, the DHS could compare zip codes of providers and location of services rendered to data on poverty from the census to determine whether some low-income areas received fewer services than others.

The Department May Not Have Sufficient Staff to Appropriately Implement the System. Despite the limitations to this system, if properly implemented it will be able to answer a number of questions related to county MISPs. The department, however, must carefully oversee the initial implementation of the program in order to maximize the utility of the data that counties will collect. This oversight would include reviewing

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county data submissions and providing counties with any technical assistance needed in order to address any data collecting or reporting problems. The department must then compile and analyze the data. Finally, the department will need to reevaluate the system on an ongoing basis for any enhancements that are necessary, such as adding data elements necessary to provide information to the Legislature. For example, family income data would help to assess the variability in services provided.

Currently the department has designated one position to implement the data system. It has also redirected time from other staff as needed. The department informs us that it cannot continue to redirect staff time to implement the data system. It is not clear, however, that one person will be able to carry out all the duties necessary to provide the Legislature with useful information. Because the department has not proposed staff to implement the data system as required to provide necessary information, we recommend that prior to budget hearings, the department provide the Legislature with information documenting how it will assure that the implementation process will continue to proceed smoothly. This information should include, but not be limited to, the tasks and time associated with them in order to properly implement the data system.

Loss of Funds Affects Health Care Services to Indigents

We recommend that prior to budget hearings, the department submit to the Legislature specified information regarding the need for services in the Medically Indigent Services program (MISP).

When the Governor signed the 1986 Budget Act, he vetoed $50 million from the Medically Indigent Services program (MISP) appropriation. One month later, Ch 892/86 restored $25 million to the MISP. The net $25 million reduction amounted to a 5 percent reduction in funding. The administration proposes to continue this current-year funding level in 1987–88.

The existing MISP data system will not measure the impact of the loss of funds on the level of services provided. As an alternative, in December 1986, the department surveyed the counties in order to ascertain whether they were planning to reduce services as a result of the reduction in funding. Twenty-five of the 28 MISP counties responded in a wide variety of ways. Seven had already cut services, and 17 said that they might make cuts prior to the end of 1986–87. Only one county had not and did not plan to make cuts. Nine counties had held or planned to hold public hearings on proposed service cuts.

For the seven counties that cut services, the cuts affected dental, optical, nutrition counseling, AIDS counseling, alcohol treatment, medical transportation, and translation services. Several counties are tightening utilization control, eligibility requirements, and elective surgery. One county is making a major revision in its hospital operating plan in order to achieve efficiencies. Several counties implemented across-the-board cuts or reduced provider reimbursements, without affecting any specific services. The across-the-board cuts could result in access barriers, such as longer waiting periods for care. Many counties envisioned additional cuts in 1987–88, particularly if the additional $25 million was not restored.

The State Funds Small Counties More Generously Than Large Counties. One way to partially measure the impact of this cut is to compare the funding levels of the MISP, which funds 28 large counties, to the funding level of the County Medical Services program (CMSP), which serves counties with populations under 300,000 that choose to let the state administer their MISPs. The CMSP works much the same as the Medi-Cal program. In those counties, county welfare departments determine eligibility based on statewide rules, and the CMSP pays claims to health care providers for services. The CMSP funding level is established based on caseload and cost trends. Because of this funding mechanism, the CMSP provides data that are complete and consistent across geographic regions and time.

The different funding mechanisms have resulted in different funding levels over time. Table 12 shows the difference in funding between the MISP and the CMSP between 1985–86 and 1987–88. It illustrates that MISP funding has *decreased* 5 percent since 1985–86, while CMSP funding has *increased* by 8 percent. However, there are a number of caveats to the comparison. First, because the MISP does not yet collect detailed utilization data, it is impossible to compare the levels of service associated with the funding in the two programs. Second, this comparison does not capture the extent to which counties may be subsidizing the MISP with their own funds and, thus, potentially making up for the state General Fund difference between the two programs. Finally, the comparison does not capture any savings counties may achieve in reimbursing providers for services rendered to MISP eligibles. For example, the CMSP does not negotiate contracts with hospitals; it pays claims on an adjusted cost basis. Some county MISPs do negotiate contracts with providers and, thus, may be paying less costly rates. Nonetheless, this comparison demonstrates that the level of General Fund support differs between counties based on whether the county participates in MISP or CMSP, and may reflect the relative levels of services provided by the two programs.

Table 12

Comparison Between Medically Indigent Services Program (MISP) And County Medical Services Program (CMSP) Funding 1985–86 through 1987–88 [a]

(dollars in thousands)

	1985–86	*1986–87*	*1987–88*
Medically Indigent Services program			
Amount	$523,435	$498,435	$498,435
Percent change from previous year		−5%	—
Percent change 1985–86 to 1987–88			−5%
County Medical Services program			
Amount	$42,735	$43,739	$46,118
Percent change from previous year		2%	5%
Percent change 1985–86 to 1987–88			8

[a] Data from earlier years are not included because they are not comparable due to counties transferring between the two programs.

There are other ways the department could make estimates of the overall size of the potentially eligible population. For example, it could estimate the size of the potential population with census data or make projections based on historic Medi-Cal data. The DHS has contracted with the MISP data system consultant to come up with ways to estimate the need for services. This estimate was to be included in the implementation report for the MISP data system pursuant to language in the 1985 Budget Act. This report has not yet been submitted. Because this estimate may help in assessing the impact of cuts in funding levels, we recommend that prior to budget hearings, the department submit this report to the Legislature.

No Plans For Local Health Capital Expenditure Account

We recommend that prior to budget hearings, the department provide specified information on county capital expenditures.

Chapter 1351, Statutes of 1980 (AB 3245), established the Local Health Capital Expenditure Account (LHCEA) to fund (1) county capital expenditures for health facilities and equipment and (2) administrative costs in providing technical assistance to local jurisdictions relative to financing these capital improvements. The act appropriated $25 million from the Special Account for Capital Outlay to the LHCEA for purposes of the program. Since then, the fund has received additional funds from unspent county health services appropriations and interest earnings. The department has awarded grants in three funding cycles: $25 million in 1982, $2.5 million in 1985, and $3.9 million in 1986.

Although the budget shows that the LHCEA will have reserves of approximately $1.3 million on June 30, 1987, the department proposes to spend only $132,000 in 1987–88 on state operations. It does not propose to spend any funds on grants to local jurisdictions.

Because the Legislature has designated this fund for county capital expenditures, we recommend that prior to budget hearings, the department provide a plan for expenditure of the funds in the LHCEA.

Vital Records Projects Off Track

We recommend that prior to budget hearings, the department provide specified implementation information about (1) the Vital Records Improvement project and (2) the Decorative Heirloom Birth Certificate program.

Chapter 1072, Statutes of 1986 (AB 3929), requires the State Registrar of Vital Records to (1) automate the collection of vital records and (2) provide to individuals upon request and payment of a fee a decorative heirloom birth certificate (DHBC).

Vital Record Improvement Project (VRIP) Behind Schedule. The budget proposes five positions and $5.5 million from the VRIP Fund in 1987–88 to automate vital records. The VRIP Fund is supported by an additional $2 fee collected from applicants desiring certified copies of records. This additional fee is to be collected for two years, beginning on January 1, 1987.

Based on the department's current timetable, the feasibility study report (FSR) for the VRIP, which details the automation system and its estimated cost, should have been submitted to the Office of Information Technology (OIT) by January 15, 1987. At the time we prepared this analysis, however, the department estimated that the FSR would not be completed until March 1987. This implementation delay could change the amounts the department expects to spend on the project in the budget year.

Decorative Heirloom Birth Certificate Program Costs and Implementation Schedule Uncertain. The budget proposes a $258,000 loan from the General Fund in the budget year for supplies needed to produce the decorative heirloom birth certificates. Ultimately, the cost of developing,

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preparing, and producing the certificate will be offset by a fee, a portion of which is to go to the State Children's Trust Fund.

The department is not able to advise us when or how it will produce the certificates. Specifically:

- ***How.*** Currently, the department plans to use hand calligraphy to produce the certificates. However, the department indicates that it may decide to use machine calligraphy instead. Because of this change, there could be additional up-front costs in the current year to produce the certificates. This new plan may involve additional current-year General Fund expenditures in order to purchase the machine.
- ***When.*** As a result of this change in production plans, the department has not been able to advise us when it will begin producing the certificates.

Updated Proposals Needed. Because the current plans for these projects are different from the proposal available for our review, we recommend that prior to budget hearings, the department provide updated proposals that identify (1) changes in how the programs will be implemented and the implementation schedules and (2) the fiscal effect of these changes.

C. OFFICE OF AIDS

AIDS is an extremely serious public health problem. The number of AIDS cases is growing and is expected to continue to do so. Over half of those diagnosed with the disease have died, and there is no vaccine or cure for the virus. While the disease is currently mostly isolated to specific groups and geographic areas, it is likely to become more pervasive throughout the general population. For a more detailed look at the nature of the disease, the expected size of the epidemic, and the costs associated with it, please see *The 1987–88 Budget: Perspectives and Issues.*

Since 1983, the Legislature has passed a number of statutes addressing many aspects of the epidemic. The Office of AIDS (OA) is primarily responsible for implementing these activities. Its responsibilities include:

- ***To contract for and monitor information and education programs.*** Currently, the OA contracts with 40 different public and private nonprofit entities in order to disseminate information about the disease to different population groups.
- ***To contract with counties and other local health jurisdictions to test for the AIDS virus.***
- ***To contract for and conduct a variety of AIDS pilot projects.*** These pilot projects are designed to (1) determine the costs and effectiveness of a variety of treatment alternatives and different types of prevention and education programs, and (2) determine the costs of medical care for AIDS.
- ***To survey and analyze the spread of the epidemic in California.***
- ***To provide technical assistance to local health jurisdictions in the field.***
- ***To coordinate the activities of different state agencies concerned with***

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AIDS. Besides the OA, the state departments most actively involved with the AIDS epidemic are the State Department of Education (SDE), the Department of Alcohol and Drug Programs (DADP), the California Department of Corrections (CDC), and the Department of Mental Health (DMH).

- ***To promote AIDS vaccine research and development.***

The Budget Proposal

The budget proposes expenditures of $21.4 million from the General Fund in 1987–88 for the Office of AIDS. This is an increase of $384,000, or 1.8 percent, over estimated spending levels in the current year. Table 13 displays expenditures including federal funds, in the past, current, and budget years.

The $384,000 increase is primarily due to the net effect of:

- ***An increase of $2 million in estimated expenditures for vaccine research and clinical trials required by Ch 1462/86 (AB 2404) and Ch 1463/86 (AB 4250).*** These measures added $4 million in the current year and approximately $6 million in the budget year in order to make grants to vaccine manufacturers for research and development of an AIDS vaccine and to provide funding for clinical trials on humans of an AIDS vaccine approved by the Food and Drug Administration (FDA).
- ***Deletion of $1.7 million for the cost-of-care study ($200,000) and for San Francisco General Hospital ($1.5 million).*** These two projects are not continued in the budget year.

In addition, the budget details almost $11 million in federal special project funds. However, the DHS informs us that its best estimate of what it will actually spend in the budget year is $1.5 million.

Table 13
Office of AIDS
Expenditures and Funding Sources
1985–86 through 1987–88
(dollars in thousands)

Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Change From 1986–87 Amount*	*Change From 1986–87 Percent*
Support					
Administration	$5,009	$2,576	$3,121	$545	21.2%
Minority treatment and counseling	—	600	600	—	—
San Francisco General Hospital	—	1,500	—	−1,500	−100.0
Chaptered legislation					
Ch 23/85 (AB 488)	— [a]	2,000 [a]	2,000 [a]	—	—
Ch 767/85 (SB 1251)	1,550 [b]	510 [b]	—	−510	−100.0
Ch 1462/86 (AB 2404)	—	1,000	2,999	1,999	199.9
Ch 1463/86 (AB 4250)	—	3,000	3,050	50	1.7
Subtotals	$6,559 [a]	$11,186 [a]	$11,770 [a]	$584	5.2%
Local assistance					
Information and education contracts	—	$4,808	$4,808	—	—
Home health, attendant, and hospice projects	($1,000)	1,500	1,500	—	—
Skilled nursing facility project	—	730	730	—	—

Cost-of-care study	—	200	—	−$200	−100.0%
Information and education program evaluation	(150)	(200)	—	(−200)	(−100.0)
IV drug abuse project	(400)	—	—	—	—
Health worker education and training	—	(250)	—	(−250)	(−100.0)
Computerized AIDS network	—	(60)	—	(−60)	(−100.0)
Epidemiological surveillance					
Block grants to counties	—	2,200	2,200	—	—
Special studies	—	400	400	—	—
Subtotals	—	$9,838	$9,638	−$200	−2.0%
Totals, state funds	$6,559 [a]	$21,024 [a]	$21,408 [a]	$384	1.8%
Federally funded projects					
Surveillance and associated epidemiological surveillance	$266	$600	$600	—	—
Health education and risk reduction (information and education)	—	536	536	—	—
Alternative test sites	1,454	317	317	—	—
Subtotals	$1,720	$1,453	$1,453	—	—
Totals	$8,279 [a]	$22,477 [a]	$22,861 [a]	$384	1.7%
Funding sources					
General Fund	*$6,559* [a]	*$20,024* [a]	*$18,409* [a]	*−$1,615*	*−8.1%*
Federal funds	*1,720*	*1,453*	*1,453*	—	—
AIDS Vaccine Resource and Development Fund	—	*1,000*	*2,999*	*1,999*	*300.0*

[a] These figures differ from the budget displays because the budget contains incorrect estimates of spending under the alternative test sites program (Ch 23/85).

[b] These amounts include funding for the home health, attendant, and hospice project, the IV drug abuse project, the information and education evaluation, the cost-of-care study, health worker education and training, and the computerized AIDS network.

AIDS Cases May Explode Among IV Drug Abusers

We recommend that prior to budget hearings, the Office of AIDS, with the assistance of the Department of Alcohol and Drug Programs, provide the Legislature with specified information regarding how it will address the AIDS problem among intravenous (IV) drug abusers.

As of November 1986, 92 percent of the AIDS cases in California had occurred among homosexual or bisexual men. The next largest proportion of cases, just over 2 percent, have occurred among heterosexual intravenous drug abusers (IVDAs). The total percent of cases involving IV drug abuse—including cases among gay and bisexual IVDAs—is about 13 percent. IVDAs transmit the virus by sharing needles that are used to inject drugs. Once infected, they may also transmit the virus through sexual encounters or perinatal exposure.

Although the proportion of IVDA-related AIDS cases in relation to the total number of cases has been holding relatively steady and is at a fairly low level, there is some evidence to suggest that the AIDS virus is spreading rapidly among these individuals. Over time, this will probably result in a greater proportion of AIDS cases due to IV drug abuse. The proportion may grow as large as on the east coast. IVDA-related AIDS cases account for 47 percent of the cases in New Jersey and 29 percent in New York. For additional information regarding IVDA-related AIDS cases, please see *The 1987–88 Budget: Perspectives and Issues.*

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IV Drug Abusers Are An Elusive Group. Unfortunately, there is very little concrete information about the people who use IV drugs. Epidemiologists estimate that the total number of individuals who inject drugs in California may be as high as 500,000 statewide. This group is divided into two very distinct categories—those who inject drugs occasionally and those who are considered active addicts. The occasional users probably number about 300,000, are better educated, and are in a higher socioeconomic class than the active addicts. Of the remaining 200,000 active addicts, about one-half are actually using IV drugs at any one time. The other half are in treatment, in some type of remission, or incarcerated.

Each of these user groups is at different risk for transmitting the AIDS virus. Because of their education and socioeconomic status, the occasional users will probably be reached through education targeted at the general population. The 200,000 active addicts are at much greater risk for spreading the AIDS virus, for a number of reasons. For example, homeless addicts are isolated from much of the information disseminated about AIDS. In addition, each active addict injects far more times than an occasional user and is therefore at increased risk for spreading the AIDS virus.

Table 14 displays characteristics of California's IVDA population, the statewide population, and the AIDS caseload. The IVDA data reflect the population under treatment. This is the best available data on the characteristics of actively addicted IVDAs.

Table 14

Population, Intravenous Drug Abusers (IVDAs), and AIDS Cases in California By Race/Ethnicity and Sex

	Percent of Population	*Percent of "Actively Addicted" IVDAs*	*Percent of AIDS Cases*	
			Heterosexuals	*All Cases*
White	67%	51%	42%	79%
Black	8	12	32	9
Hispanic	19	35	22	10
Male	49	62	82	98
Female	51	38	18	2

Sources: 1980 census, 1985–86 California Drug Abuse Data System (Cal-DADS), and January 1986 Office of AIDS data.

Comparisons of these data yield some interesting information about the potential course of the AIDS epidemic among different population groups. Table 14 suggests that:

- Blacks and hispanics are overrepresented in the IVDA population relative to their representation in the population as a whole. Whites and females are underrepresented.
- While blacks and hispanics are not overrepresented among overall AIDS cases relative to their representation among the population as a whole, they *are* overrepresented among heterosexual AIDS cases.
- The proportion of blacks among heterosexual AIDS cases is much higher than the proportion of blacks among the population or among IVDAs. This means that the virus is probably more widely distributed

in the black population than other populations, and that blacks will continue to represent a high proportion of AIDS cases.

- AIDS cases among hispanics may rise more rapidly than among whites or blacks, and AIDS cases among women may rise more rapidly than AIDS cases among men. This is because in these groups their representation among IVDAs is much higher than among AIDS cases.

In summary, the differences between the characteristics of heterosexual AIDS cases and IVDAs suggest that the explosion in IVDA-related AIDS cases will occur in blacks, hispanics, and women. This means that these groups also require special education regarding AIDS.

What Are The State's Options For Addressing The AIDS Epidemic Among IV Drug Abusers? In essence, the state has three options for attempting to curtail the spread of infection:

- ***Stop IV drug abuse entirely through law enforcement or treatment.*** This strategy has been attempted prior to the AIDS epidemic, with limited success.
- ***Attempt to limit the total number of injections per user.*** Research has shown that, for the chronic user, methadone maintenance programs greatly reduce the number of injections per person. This strategy could also encompass providing education in an attempt to convert drug users to use of non-IV drugs.
- ***Attempt to limit the number of unhygienic injections.*** This strategy could include educating individuals about the hazards of needle sharing, about the proper cleaning of needles if they are to be shared, or making clean needles more readily available to IVDAs.

There is little evidence to show that any of these strategies works better than any other in reducing the spread of infection among IVDAs. In this situation, it makes sense for the state to (1) continue to monitor current programs and the research occurring in other states and countries and (2) implement a multi-faceted approach that includes:

- ***Education about the hazards of sharing needles and appropriate methods to clean needles.*** This should be targeted to specific groups, including:
  —Addicts who are not receiving treatment.
  —IVDAs in state prisons or county jails and work furlough programs.
  —Women.
  —Blacks and hispanics.
- ***Education about safe sex, targeted both towards IVDAs and also to their sexual partners.*** This education must include information about AIDS and reproduction.
- ***Testing for the virus.*** Alternative test sites provide testing for individuals who wish to learn whether they have been exposed to the AIDS virus. Testing that is widely available for specific population groups may help to promote "safer" behavior with respect to transmitting the AIDS virus.
- ***Treatment for IVDAs in order to reduce waiting lists.*** In addition to methadone maintenance slots, having additional treatment slots available for IVDAs in a variety of different modalities (such as inpatient or outpatient drug free) in order to reduce waiting lists may make sense because:
  —Increased outreach to the IVDA community will generate additional requests for all types of treatment.
  —Having individuals in treatment better ensures that they will en-

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gage in responsible behavior that will limit the spread of the AIDS virus.

—Drug treatment programs are an ongoing place to educate people about the spread of the AIDS virus.

What is the Office of AIDS doing about IVDAs? In the current year, the OA is funding:

- ***A pilot project.*** This project attempts to reduce needle sharing and unsafe sexual practices among specific groups of IVDAs and their sexual partners. This contract ends in March 1987.
- ***Information and education contracts.*** The OA estimates that $716,000, or 15 percent of its funding for information and education contracts, is targeted towards IVDAs.
- ***County block grants.*** The OA estimates that $539,000, or 25 percent, of the funds distributed through block grants, are targeted towards IVDAs.

The OA informs us that in 1987–88 it plans to target 25 percent of its funding for information and education contracts towards minorities. The portion of these funds related to IV drug abuse is unknown. The OA has not developed a comprehensive plan to address the AIDS IV drug abuse problem.

Due to the urgency of this problem and the difficulty in targeting this group, we recommend that prior to budget hearings, the OA, with the assistance of the Department of Alcohol and Drug Programs, provide the Legislature with a plan for a comprehensive strategy towards addressing IV drug abuse and AIDS. This plan should include, but not be limited to, the following:

- What resources within the OA and the Departments of Education, Alcohol and Drug Programs, Corrections, and Mental Health will be targeted towards IVDAs? In particular, what, if any, portion of the funds from the new federal drug bill will be available to address AIDS, both in terms of education and treatment?
- What proportion of these resources will be targeted towards (1) research, (2) information and education, and (3) treatment?
- How will resources be targeted towards blacks, hispanics, and women?
- How will OA educate these groups about reproduction and AIDS?
- Will the OA make virus testing more available to minorities and women by providing testing in places that are more accessible to them, such as drug treatment programs, public health clinics, and family planning or OB/GYN clinics?

AIDS Is Likely To Spread Rapidly Among Sexually Active Heterosexuals

We recommend that prior to budget hearings, the OA provide the Legislature with a plan to address the spread of the AIDS virus among sexually active heterosexuals.

As infection with the AIDS virus spreads through IVDAs to the heterosexual population, those heterosexuals who are sexually active with many different partners are going to be at highest risk for becoming infected. These sexually active individuals are currently at highest risk for contracting other sexually transmitted diseases (STDs). The Infectious Disease Branch of the DHS states that black and hispanic young adults are currently at highest risk for contracting STDs.

County public health clinics currently test for STDs, do contact tracing in order to track down and treat the sexual partners of those who are found to be infected with an STD, and provide education about STDs. These clinics could also provide similar services related to AIDS, although any contact tracing would have to be done on a voluntary basis.

These clinics are appropriate places to reach these sexually active individuals. Currently, by far the largest amount of AIDS education goes on in places geared toward the homosexual community. Education targeted towards the homosexual population is likely to be inappropriate for black and hispanic youth.

The OA has not proposed any new funding to address this group of individuals, and it has not spearheaded any efforts to encourage counties to provide these services in their public health clinics. Because this group of individuals is at high risk for contracting AIDS, we recommend that prior to budget hearings, the OA provide the Legislature with a plan for prevention among high-risk sexually active heterosexuals, particularly black and hispanic young adults. This plan should include, but not be limited to, the OA's interface with public health clinics and the potential impact of the AB 8 transfer to the counties on these services.

AIDS Exemplifies Problems Inherent in Funding Community-Based Long-Term Care

We recommend that the California Medical Assistance Commission include in its report on funding options for community-based long-term care services specified information about AIDS.

Chapter 767, Statutes of 1985 (SB 1251), and the 1986 Budget Act required the OA to fund a number of pilot projects that are designed to examine the effectiveness and cost of different methods of providing care for AIDS patients. These pilot projects focus on several different aspects of treatment:

- Home health, attendant, and hospice care.
- Treatment of IV drug abusers (IVDAs) with AIDS.
- Cost of care in skilled nursing facilities (SNFs).
- Overall cost of medical care for AIDS.

The OA states that information developed under the pilot projects will become available in the budget year. Once the Legislature receives this information, it will be able to decide how to provide a configuration of services that makes sense for AIDS patients.

The limited information already available indicates that providing appropriate alternatives to acute care hospitalization might reduce the cost of care for AIDS patients. For example, one study found that care for AIDS patients is much less expensive in San Francisco than in other places, in part, due to the availability of out-of-hospital alternatives.

When information from the pilot projects becomes available, the Legislature should be able to determine more precisely (1) whether providing additional nonhospital services would be cost-effective, (2) the types of services that should be provided, (3) how the additional services should be targeted, and (4) the effect on costs of providing these services. If the pilot project results confirm that additional nonhospital alternatives should be made more widely available for AIDS patients, the Legislature has at least four funding alternatives:

- ***Continue to fund special projects for alternative services through the General Fund and medical services through Medi-Cal.*** This in-

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cludes programs to expand use of existing nonhospital services such as skilled nursing facilities and In-Home Supportive Services (IHSS).

- ***Provide grants to counties so that they can assess their own needs and provide an appropriate configuration of services.*** For example, in the current year, the California Department of Aging (CDA) designated service enriched (SEED) communities in order to demonstrate long-term care service delivery systems for the elderly and disabled. These types of systems would also be appropriate for AIDS patients, because they involve services such as case management and In-Home Supportive Services. The Legislature could use the results from this program in order to provide counties or communities with guidelines for how to best serve AIDS patients.
- ***Add personal care and case management as Medi-Cal benefits.*** Adding these two services to the range of benefits available through Medi-Cal would provide more alternatives to acute care hospitals and SNFs. Federal law allows targeting of case management benefits based on specific areas or populations.
- ***Apply for a waiver of Medicaid regulations in order to pay for home- and community-based (HCB) services through Medi-Cal.*** To obtain a waiver, states must demonstrate that (1) the HCB services provide an alternative to acute care hospitalization and (2) the waiver would not increase Medicaid costs.

Advantages and disadvantages of each of these options are presented in Table 15.

Table 15

Advantages and Disadvantages of Options for Funding Nonhospital Services for AIDS Patients

Option	*Advantage*	*Disadvantage*
1. Special projects	Enables targeting of services	Nonmedical services would be 100 percent General Fund supported
		May result in differences in service availability among regions
2. Local block grants	Local control and flexibility	Nonmedical services would be 100 percent General Fund supported
		May result in differences in service availability among regions
3. Add personal care and case management as Medi-Cal benefits	Makes federal Medicaid funds available for some additional home- and community-based services	These benefits do not easily facilitate service utilization control
	Treats AIDS patients similarly to other people needing the same services	

4. Provide home- and community-based services for AIDS patients through a waiver	Makes federal Medicaid funds available for a full range of home- and community-based services	Potentially cumbersome and lengthy application process
	Enables targeting of services and better control of utilization	Treats AIDS patients differently from other people needing the same services

In *The 1987–88 Budget: Perspectives and Issues* we recommend that the California Medical Assistance Commission evaluate the advantages and disadvantages of a variety of options for financing and organizing California's long-term care delivery system. Because AIDS should be included as part of, rather than separately from, any decisions made about the health care delivery system as a whole, the report we recommend from CMAC requests information about how these different service delivery options would affect individuals with AIDS. For these recommendations, please see our discussion of long-term care funding options in *The 1987–88 Budget: Perspectives and Issues.*

AIDS Funds Should be Transferred to Local Assistance

We recommend that $600,000 be transferred from support to local assistance to properly reflect the character of this expenditure. (Transfer $600,000 from Item 4260-001-001 to Item 4260-111-001).

The department proposes to include in the support item (4260-001-001) $600,000 for AIDS minority treatment and counseling contracts. This type of expenditure is more appropriately budgeted in the local assistance item (4260-111-001) than in the support item and would enable the Legislature to track funding more accurately. Accordingly, we recommend that the AIDS funds be budgeted in the local assistance item.

D. PREVENTIVE MEDICAL SERVICES

Statutory Funds Available to Reduce Budget-Year Appropriations

We recommend that the Legislature (1) delete $87,000 requested from the General Fund for the Childhood Lead Poisoning Prevention program in 1987–88 and (2) reappropriate the same amount from funds made available by Ch 481/86 because such funds could be used to offset General Fund program costs in the budget year.

The budget proposes $275,000 from the General Fund to implement Ch 481/86, which requires the department to establish a program for screening children for elevated blood lead levels and provide medical follow-up and environmental improvements. The act requires the department to screen children during the period July 1, 1987 to October 1, 1988 and to submit a report to the Legislature by January 1, 1989. The legislation appropriated $175,000 specifically to fund first-year costs of the program.

The department proposes to implement the lead screening program in the current year but had not contracted for services at the time this analysis was written. The department does not propose to begin actual field screening of children until January 1988. Consequently, the program is approximately six months behind the schedule anticipated in the legislation.

Our analysis indicates that the department's current timeline for implementing the program means that in the current year, it will need approximately one-half of the statutory funds made available to support first-year

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costs of the program. Thus, $87,000 of funds appropriated in the current year will be available to support the budget-year operations of the Childhood Lead Poisoning Prevention program. For this reason, we recommend (1) a reduction of $87,000 in the amount budgeted from the General Fund and (2) reappropriation of funds originally made available by Ch 481/86 to support costs of the program in the budget year.

Governor's Council on Fitness and Health Does Not Measure Up

We recommend that the Legislature reject the administration's proposal to establish a state-level council on physical fitness and health because the department has failed to justify it, for a General Fund savings of $88,000. (Reduce Item 4260-001-001.)

The budget requests $88,000 to establish a 15-member council on physical fitness and health. Council members would be appointed by the Governor and would be charged with the responsibility of promoting a health status report card being developed by the department for use in schools. The health status report card is proposed to be a tool for schools and communities to use in improving the physical fitness and health of school-age children. Council staff would consist of a part-time clerical and a part-time health educator.

Our analysis indicates that the program is not warranted for two reasons. First, the President's Council on Physical Fitness and Sports (PCPFS) already exists at the national level. The PCPFS is charged with similar goals and objectives to those being proposed for the Governor's council and provides outreach services to school districts and communities. Thus, this program would duplicate services already provided at the federal level. Second, the department has been unable to generate a significant demand for voluntary participation in the health status report card program at the local level. The department indicates that only six counties have indicated interest in the program.

Because the department has been unable to provide any evidence that this program will further its stated goals—improving the physical fitness and health of school-age children—we recommend that the proposal be rejected for a General Fund savings of $88,000.

Report Overdue on Birth Defects Monitoring Program Budget

We withhold recommendation on $3,247,000 for support of the Birth Defects Monitoring program pending receipt of budget detail due to the Legislature November 1, 1986.

The budget proposes $3.2 million for support of the Birth Defects Monitoring program in 1987–88. This amount is $368,000, or 13 percent, more than estimated current-year expenditures.

The Birth Defects Monitoring program is designed to track the incidence of birth defects and determine which environmental factors cause these 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. In the current year, the monitoring program is expanding from operating in 16 counties to operating in 37 counties.

The *Supplemental Report of the 1986 Budget Act* required the department to provide the Legislature, by November 1, 1986, a complete budget for the program in the current year. Specifically, the budget detail was to include:

- An accounting of program personnel by classification.
- Scheduled equipment purchases.
- A list of contractual services to be provided to the program.

The reporting requirement was directed by the Legislature because the program had employed inconsistent budgeting practices during several years of rapid expansion.

At the time this analysis was written, the required budget report had not been submitted to the Legislature. Without this information, our ability to thoroughly review program expenditures in the current year and program needs in the budget year is severely limited. For instance, we are unable to determine whether (1) the growth in program expenditures is justified or (2) the program is budgeting its base funding efficiently. Consequently, we withhold recommendation on $3,247,000 contained in the budget for support of the Birth Defects Monitoring program pending receipt and review of the required report.

Administration Fails to Provide Timely Information on Proposed Program Expansion

We withhold recommendation on $2,657,000 from the General Fund proposed for the expansion of the cancer registry program because the administration failed to provide the information necessary to evaluate the proposal in a timely manner.

The budget proposes a General Fund augmentation of $2.7 million in order to expand the state's cancer registry. The department currently collects data on the incidence of cancer in 33 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 expand the registry statewide with the final phase of expansion occuring in 1988–89. The 1987–88 budget reflects the second year of the expansion program.

We were unable to complete our review of this budget proposal by the time this analysis was prepared, because the administration did not submit information in a timely manner concerning the particulars of how the expansion will be implemented. Therefore, we withhold recommendation on $2,657,000 from the General Fund proposed for the expansion of the state's cancer registry.

Proposal to Eliminate Cal-OSHA Affects Public Health Funding Needs

We withhold recommendation on (1) $1,312,000 proposed for support of the Hazard Evaluation System and Information Service and (2) $1,576,000 proposed for support of laboratory services, pending decisions by the Legislature concerning continued funding of the California Occupational Safety and Health Act (Cal-OSHA) program.

The Governor's Budget proposes to eliminate most of the Cal-OSHA enforcement program. (Presumably, these enforcement responsibilities would be assumed by the federal government, which partially funds the program.) Cal-OSHA regulates worker health and safety through inspections of workplaces and enforcement actions against employers who subject workers to unsafe or unhealthful conditions on the job. The Department of Health Services (DHS) provides certain support services to the Cal-OSHA program, including (1) administration of the Hazard

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Evaluation System and Information Service (HESIS) and (2) laboratory analysis of air and chemical samples collected at work sites. Both HESIS and laboratory analyses are funded through reimbursements from the Department of Industrial Relations (DIR), which administers the Cal-OSHA program.

HESIS. HESIS provides information to employees, employers, and medical practitioners concerning potentially dangerous conditions or exposures to toxic substances at the workplace. The program operates a telephone response system to provide confidential answers to individuals' questions concerning occupational hazards. In addition, HESIS provides recommendations to the Cal-OSHA program and the Department of Food and Agriculture concerning the need for new or revised occupational health and safety standards.

The budget proposes $1.3 million from reimbursements for the HESIS in 1987–88. This is $330,000, or 34 percent, more than estimated current-year expenditures. The department states that this increase is necessary in order to allow it to perform work up to the level anticipated in the interagency agreement between the DHS and the DIR.

Laboratory Services. The budget proposes $6.3 million for support of the Air and Industrial Hygiene Laboratory and the Southern California Laboratory in 1987–88. Of this amount, the DHS projects that $1.6 million —or 25 percent of total funding for both laboratories—will come from reimbursements from the Cal-OSHA program. This amount is approximately equal to current-year estimated reimbursements from Cal-OSHA.

Our analysis indicates that, in light of the Governor's Budget proposal to eliminate most of the Cal-OSHA program, (1) the proposal to increase DHS reimbursements for HESIS is premature and (2) laboratory services may be significantly overbudgeted. Therefore, without prejudice to the merits of the proposals, we withhold recommendation on reimbursements of $1,312,000 in the HESIS program and $1,576,000 requested for support of laboratory services pending a decision by the Legislature on the merits of the Governor's proposal to eliminate the Cal-OSHA program.

E. ENVIRONMENTAL HEALTH AND LABORATORY SERVICES

Sanitary Engineering Branch and the Clean Drinking Water Program

The Sanitary Engineering Branch (SEB) has responsibility for the state's clean drinking water program. The clean drinking water program seeks to ensure that water "out of the tap" is clean and free of harmful concentrations of chemicals, regardless of the quality of the source of the drinking water. This is accomplished through (1) water quality monitoring and inspections of water systems, (2) development of standards for potentially harmful chemicals detected in drinking water, (3) investigations of and enforcement actions against water systems that violate the standards, and (4) writing of permits for water systems to use various treatment technologies aimed at producing clean water for customers. The branch is aided by the Sanitation and Radiation Laboratory and the Epidemiological Studies Section in carrying out its responsibilities to safeguard clean drinking water.

The major increases in program support proposed for 1987–88 include (1) $338,000 from the Hazardous Waste Control Account to investigate chemical contamination of drinking water at toxic waste sites and (2) $111,000 in special funds to implement the Water Treatment Device Certification program required by Ch 1247/86 (SB 2119).

We recommend approval of the proposal to implement SB 2119 requirements. Discussion of the other proposal follows.

Budget Proposes Duplicative and Unnecessary Services

We recommend a reduction of $338,000 from the Hazardous Waste Control Account for support of toxic chemical contamination inspections by the Sanitary Engineering Branch and the Sanitation and Radiation Laboratory because this proposal is likely to result in duplication of effort.

The budget proposes to increase staffing in the clean drinking water program by (1) 5.5 positions in the Sanitary Engineering Branch to investigate chemical contamination of drinking water associated with site mitigation efforts at toxic waste sites and ensure that proper permitting of treatment devices occurs and (2) 1 position in the Sanitation and Radiation Laboratory to provide laboratory support to these investigations. Table 16 shows the activities for which these positions are requested.

Table 16
Proposed Work Plan for Investigations of Toxics in Drinking Water 1987–88

Activity	*Positions*
Sanitary Engineering Branch	
Assist water board in investigating groundwater contamination	1.4
Develop sampling plans to support site mitigation efforts	1.4
Review and comment on site mitigation plans	0.9
Evaluate treatment specifications, issue permits, and monitor contracts	1.1
Participate in public meetings, hearings, and notifications	0.1
Manage projects, prepare reports, public and media contact	0.6
Subtotal	5.5
Sanitation and Radiation Laboratory	
Conduct laboratory analyses and maintain quality assurance	1.0
Total	6.5

In reviewing this proposal we identified the following problems:

1. ***Potential for Duplication of Effort.*** Both the Toxic Substances Control Division (TSCD) within the department and the State Water Resources Control Board have resources dedicated to mitigating the effects of toxic waste disposals and discharges that could and/or do affect groundwater and drinking water supplies. The TSCD has primary responsibility for overseeing state and private efforts to clean up toxic waste sites; the board is often involved in these efforts as well. Our review of the list of activities proposed for the Sanitary Engineering Branch and the Sanitation and Radiation Laboratory indicates that the budget proposes activities within the clean drinking water program which are already the responsibility of the board or the TSCD. For example:

- The board is responsible for analyzing and characterizing contaminated groundwater sites to determine (1) the extent of the contamination and (2) the parties responsible for the contamination.
- The TSCD is responsible for the development and oversight of feasibility assessments and site mitigation plans, including the evaluation of treatment technologies to effect a satisfactory solution to the contamination problem; the board is involved in this process where groundwater contamination has occurred.

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- The TSCD has project managers and community relations and public information personnel who lead public meetings, manage projects, and plan media and community contacts regarding toxic waste sites.

2. ***Workload Not Clearly Substantiated.*** In 1985–86 the Sanitary Engineering Branch devoted approximately 3.5 personnel-years to activities related to toxic waste sites. Our evaluation of (1) the extent to which these personnel-years were essential to site mitigation efforts and (2) the likelihood that such work will increase in the future is hampered, however, because the workload data provided and the tracking system employed by the branch do not specify the actual activities in which the branch participated; all assistance given to the board and the TSCD is reported in one category.

3. ***No Formal Coordination with Lead Agency.*** According to staff of the TSCD and the Sanitary Engineering Branch, no formal agreement exists as to how and when sites should be referred to the branch for evaluation or participation. Until a policy is developed with the lead unit (TSCD) establishing a continuing role for the branch in cleanup activities at hazardous waste sites, we are unable to evaluate (1) the level of resources necessary for the branch to carry out essential activities at these sites and (2) the extent to which the role of the branch offsets resource needs at the TSCD or the water board.

Our analysis indicates that, because of the lack of a formal process for referral of sites to the SEB for evaluation, the budget proposal is likely to result in duplication of effort. Moreover, the absence of such a process coupled with sketchy historical workload data leaves us without a basis for making an independent assessment of the necessity of branch involvement in the hazardous waste site mitigation process. Therefore, we recommend that the proposal be rejected at this time, for a savings to the HWCA of $338,000.

Greater Coordination Needed with Water Board in Developing Standards

We recommend that the Legislature direct the Sanitary Engineering Branch and the State Water Resources Control Board to adopt a coordinated policy for assessing the feasibility of implementing treatment standards and discharge requirements for achieving clean water.

California does not have an integrated program for regulating both discharges to and treatment of drinking water. The State Water Resources Control Board (SWRCB) and the regional water quality control boards (RWQCBs) regulate discharges to water by issuing permits specifying the quantity, if any, of a particular substance that can be disposed to water. The Sanitary Engineering Branch regulates the quality of drinking water by specifying maximum contaminant levels (MCLs) and imposing treatment requirements on water systems.

The process for developing MCLs consists of two basic steps. Specifically, these are:

1. ***The Epidemiological Studies Section assesses the acute and chronic effects of the chemical.*** This assessment is used to develop an "action level"—the concentration level at which no adverse health effects are anticipated. Action levels are not formal regulations but perform an advisory function.

2. ***The Sanitary Engineering Branch evaluates the feasibility of implementing treatment technologies.*** The Sanitary Engineering Branch as-

sesses (a) the extent to which water systems can achieve action levels through application of existing treatment technologies and (b) the economic feasibility of requiring water systems to employ appropriate treatment technologies. If the SEB determines that it is technologically or economically infeasible for water systems to achieve action levels, the action level is modified. A modified action level allows a greater concentration of the chemical contaminant in the water than has been assessed by the ESS to have no adverse health effects. The action level modified by any technological or economic feasibility considerations is adopted in regulation as an MCL.

Our review of the standards development program indicates that this process for developing drinking water standards is based on the ability of *water systems* to *treat* water. It does not assess the extent to which action levels could be achieved feasibly *through limitations on discharges*. It is possible that, in some cases where the branch has adopted MCLs that are higher than action levels based on its treatment feasibility assessment, reduced concentration levels could be achieved through the imposition of both treatment requirements set by the branch (MCLs) *and* revised discharge requirements set by the SWRCB. Consequently, we recommend that the Legislature direct (1) the branch to adopt a formal policy for sharing information with the board concerning any modification of action levels prior to adoption as MCLs and (2) the board to assess the feasibility of achieving the unmodified action level through new or revised discharge requirements. The following supplemental report language would accomplish this:

"The Department of Health Services, in cooperation with the State Water Resources Control Board, shall develop and implement a plan for coordinating the drinking water standards and discharge permit programs in order to ensure the greatest level of protection to human health which is feasible to attain. The plan shall be submitted to the policy committees, fiscal committees, and Joint Legislative Budget Committee on or before October 15, 1987."

Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65)

In November 1986, the voters passed Proposition 65, the Safe Drinking Water and Toxic Enforcement Act. The act (1) modifies public- and private-sector responsibilities for ensuring a safe drinking water supply in the state and (2) requires that businesses inform individuals of possible exposures to hazardous substances.

The major intent of the act is to:

- Protect the state's sources of drinking water against contamination by chemicals that cause cancer, birth defects, or other reproductive harm.
- Require that individuals be warned of a possible exposure to chemicals that may cause cancer or reproductive toxicity.

The key features of Proposition 65 are as follows:

1. ***The State Must Compile an Annual List of Chemicals.*** Proposition 65 requires the state to publish a list, by March 1, 1987, of chemicals known to the state to cause cancer or reproductive toxicity. The list must include (a) those substances identified as human or animal carcinogens by the International Agency for Research on Cancer and the National Toxicology Program and (b) chemicals that are regulated as carcinogens by the state's Occupational Safety and Health Act program. At a minimum,

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the initial list will include at least 250 chemicals, and could include as many as 1,200.

The measure also requires the state to publish, beginning in 1989, a separate list of chemicals that are required by the state or federal government to be tested for cancer or reproductive toxicity but that have not been adequately tested. Both lists must be revised annually.

2. ***Private Businesses May Not Discharge Listed Chemicals to Sources of Drinking Water.*** Proposition 65 prohibits the discharge or release of any listed chemical to (a) any source of drinking water or (b) onto land or air where it might subsequently migrate to a source of drinking water, unless the business can prove that the chemical will not cause harmful health effects.

3. ***Discharged Chemicals are Presumed to be Hazardous to Health.*** Prior to passage of Proposition 65, the burden of proof typically was on government and parties in litigation to prove that a chemical or reproductive toxin was unsafe. The measure shifts the burden of proof to business to establish that no harmful health effects are likely to occur from a release of a toxic chemical. A business must prove that (a) "no significant risk" of cancer exists assuming lifetime exposure to the chemical in question at the discharge concentration and/or (b) exposure to a listed chemical would have "no observable effect" on human reproduction at 1,000 times the discharged concentration.

4. ***Businesses Must Give Clear and Reasonable Warning of Exposure.*** The measure requires persons using a listed chemical to give "clear and reasonable warning" to anyone who may potentially be exposed to the chemical. Warning can be provided by such methods as labels on consumer products, notice by mailing, posting of notices, and notice to news media.

5. ***Public Agencies and Others are Exempt from Discharge Prohibitions and Warning Requirements.*** Proposition 65 exempts from the discharge prohibitions and the warning requirements (a) local, state, or federal governmental entities, (b) public water systems, and (c) businesses with fewer than 10 employees.

6. ***Individuals May Seek Enforcement in the Courts.*** The measure allows any individual to bring action in court for enforcement of the act in instances where no agency has commenced prosecution of the discharge or warning violation within 60 days after the first notice of the violation. The burden of proof is on the business discharging the chemical to prove the chemical does not pose a threat to the public.

7. ***Public Employees Must Provide Information to Local Officials.*** The act requires certain government employees to provide information relating to illegal or possibly illegal discharges or face possible criminal penalties. Designated government employees must disclose this information to the board of supervisors and the local health officer of the county in which the discharge occurs. The local health officer receiving such information must notify local news media and make the information available to the public without delay.

8. ***Violators Must Pay Increased Penalties.*** Proposition 65 increases the fines for the illegal disposal of hazardous waste.

What Will Be the Role of the State?

We recommend that the administration report during budget hearings on its plan for implementing Proposition 65.

It is not possible at this time to predict what the effects of Proposition 65 will be, because much of the measure will take on concrete meaning and legal force only when it is interpreted through the regulatory, legislative, and/or judicial processes. The proposition imposes few new mandates on the state; most of the key provisions of Proposition 65 are discretionary as regards state regulatory action and enforcement.

Minimum Requirements of the State. At a minimum, the state must (1) publish annual lists of chemicals known to the state to cause cancer or reproductive toxicity, (2) publish a list of chemicals that require testing, (3) designate a lead agency for implementing the measure, and (4) inform designated government employees of their responsibilities. Beyond these minimum requirements, the state could adopt a more active role in implementation and continuing regulation of the measure's requirements.

Options for Greater State Participation. Other activities that must be accomplished, either by state administrative agencies, enactment of legislation, or by the courts, include:

- Clarification of terms used in the measure. For example, terms that need clarification include (1) illegal discharge, (2) significant risk, (3) reproductive toxin, and (4) employee.
- Establishment of protocols for determining whether a significant risk to health exists in various circumstances.
- Establishment of a basic system for enforcement.

Our analysis indicates that state agencies already have varied scientific, technical, and regulatory expertise in (1) determining public health risks from chemical exposures and (2) monitoring water quality and regulating chemical discharges to water. Consequently, at the very least, state regulatory agencies should be involved in the development of (1) workable definitions for key terminology used in the proposition and (2) scientific protocols for determining the risk to health of exposure to various chemicals. Such participation would ensure consistent statewide implementation of the discharge and warning requirements and would provide essential information to the courts in making enforcement decisions. Beyond this level of involvement, the state could develop new—or consolidate existing—regulatory programs for ongoing monitoring and enforcement of the terms of Proposition 65.

Current Status of Implementation. At the time this analysis was written, the administration had designated the Health and Welfare Agency as the lead agency for implementing Proposition 65 and had begun planning for its implementation. No details of the administration's plans, however, were yet available. The Legislature needs detailed information from the administration before it can determine (1) the extent to which the administration's plans are appropriate, (2) the level of state support necessary to implement the measure, or (3) the need for clarifying legislation. Consequently, we recommend that the administration report during budget hearings concerning its plan for implementing Proposition 65. This report should include, but not be limited to, the following information:

- A specific plan for implementation of the requirements that the measure places on the state. This plan should include (1) a list of the

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agencies involved in meeting each requirement and (2) key interim target dates for meeting the measure's deadlines.

- A timetable for development and adoption of regulations defining key terms and clarifying requirements under the measure. This timetable should include the administration's plan for developing protocols for determining significant risk.
- Detail concerning the monitoring and enforcement presence that the administration plans for state administrative agencies.
- A review of current programs and resources, by department, which can be used for monitoring and enforcement activity related to the proposition.
- Detail concerning state administrative costs associated with implementation and the administration's plan for funding these costs.

4. TOXIC SUBSTANCES CONTROL

A. OVERVIEW

The Toxic Substances Control Division regulates hazardous waste management, cleans up sites that have been contaminated by toxic substances, and encourages the development of treatment and disposal facilities as alternatives to waste disposal onto land.

Table 17 displays the expenditures and funding sources for the toxics division in the prior, current, and budget years.

Table 17

Toxic Substances Control Division Expenditures and Funding Sources 1985–86 through 1987–88 (in thousands)

Expenditures	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Change From 1986–87 Amount*	*Change From 1986–87 Percent*
Support	$59,544	$69,760	$102,914	$33,154	47.5%
Special projects	448	32,605	32,605	—	—
Totals	$59,992	$102,365	$135,519	$33,154	32.4%
Funding sources					
General Fund	—	*$14,400*	—	*–$14,400*	*–100.0%*
Hazardous Substances Cleanup Fund	*$34,343*	*9,534*	*$48,979*	*39,445*	*413.7*
Hazardous Waste Control Management	*4,277*	*22,204*	*28,130*	*5,926*	*26.7*
Hazardous Waste Management Planning Subaccount	—	—	*7,000*	*7,000*	*NMF*[a]
Hazardous Substance Account	*15,868*	*16,860*	*13,527*	*–3,333*	*–19.8*
Hazardous Substance Site Operations and Maintenance Account	*225*	*1,100*	*59*	*–1,041*	*–94.6*
Hazardous Waste Injection Well Account	—	*120*	—	*–120*	*–100.0*
Superfund Bond Trust Fund	*–8,977*	*1,241*	*967*	*–274*	*–22.1*
Federal funds	*14,256*	*36,906*	*36,857*	*–49*	*–0.1*

[a] Not a meaningful figure.

The budget proposes expenditures of $135.5 million (all funds) for the toxics division in 1987–88, including expenditures for program support and special projects. This is an increase of $33.2 million, or 32 percent, above estimated current-year expenditures. The increase consists primarily of (1) projected increases in expenditures from bond funds for site characterization and cleanup and (2) increases in staff and contract support for various ongoing programs of the division.

The budget proposes a total of 807 positions for the division in 1987–88, which is an increase of 245.8 positions above the 1986–87 authorized staffing level. This increase reflects the budget's request for 221.8 new positions for site mitigation and support of hazardous waste management activities, and the transfer of 24 positions for various overhead functions from other departmental units.

Table 18 displays the changes proposed in the toxics division support budget for 1987–88. The net increase of $33.2 million results from $18.2 million in baseline adjustments and $15 million in new program proposals.

Table 18

Toxic Substances Control Division
Proposed 1987–88 Budget Changes
(dollars in thousands)

	Positions	*Amount*	*Fund*[a]
1986–87 expenditures (Budget Act)	561.2	$41,775	Various
Baseline adjustments, 1986–87			
1. Statutory appropriations	—	20,805	Various
2. Debt service for bond funds	—	6,241	Various
3. Transfer of functions from other departmental units	—	936	Various
4. Adjustments of pro rata and SWCAP	—	596	Various
5. Miscellaneous personal services adjustments	—	−192	Various
6. Unexplained adjustments	—	−401	Various
1986–87 expenditures (revised)	561.2	$69,760	Various
Baseline adjustments, 1987–88			
1. Carry-over of bond funds	—	$37,208	HSCF
2. Adjustment to pro rata	—	1,274	Various
3. Full-year costs of delayed hirings	—	572	Various
4. Increased costs of the Board of Equalization	—	457	HWCA
5. Transfer of functions from other departmental units	24	172	Various
6. Decrease in bond debt service	—	−274	HSCF
7. Reduction for one-time purchase of trucks	—	−267	Various
8. Miscellaneous personal services adjustments	—	249	Various
9. Federal funds reduction	—	−49	Federal
10. Elimination of statutory appropriations			
a. Ch 1508/86	—	1,000	General
b. Ch 1044/83	—	−1,100	HWSOMA
c. Ch 1439/85	—	−5,000	HSCF
d. Ch 1428/85	—	−12,880	General
e. Other statutory appropriations	—	−695	Various
11. Unexplained adjustments	—	−485	Various
Subtotals	24	$18,182	Various
Program change proposals:			
1. New statutory appropriations			
a. Local hazardous waste management planning	13	$7,444	Various
b. Implementation of land disposal restrictions	6.8	804	HWCA
c. Other statutory appropriations	8	61	HWCA
2. Increase permit staff	68.3	1,499	HWCA
3. Increase inspection and enforcement staff	13.1	504	HWCA

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4. Increase site mitigation staff	40	1,023	HSCF
5. Increase ability to demonstrate and disseminate new technologies	13.6	1,048	Various
6. Reduce backlog of waste classification requests	6	269	HWCA
7. Enhance technical reference center	1	148	HWCA
8. Increase community relations and public information staff	19.5	783	Various
9. Increase regional office and headquarters clerical and administrative support	32.5	1,483	Various
10. Miscellaneous salary and benefits adjustment for new positions	—	−94	Various
Subtotals	221.8	$14,972	Various
1987–88 expenditures (proposed)	807.0	$102,914	Various
Change from 1986–87 (revised)			
Amount	245.8	$33,154	
Percent	43.8%	47.5%	

[a] HSCF—Hazardous Substance Cleanup Fund
HWCA—Hazardous Waste Control Account
HWSOMA—Hazardous Waste Site Operations and Maintenance Account
HSA—Hazardous Substance Account

New program initiatives proposed for the budget year provide for implementation of legislation, as well as departmental proposals to strengthen the division's existing programs. Major legislation that is addressed in the 1987–88 budget includes:

- ***Local and State Hazardous Waste Facility Site Planning.*** Chapter 1504, Statutes of 1986 (AB 2948), provides for a process of planning by local governments for the management of hazardous wastes. Chapter 1502, Statutes of 1986 (AB 650), provides for a companion planning process on the part of the state. The department proposes to administratively establish 13 positions in the current year to implement these acts. The budget proposes a total of $7.4 million for the ongoing support of planning activities in 1987–88. Of this amount, $7 million would be appropriated from Outer Continental Shelf Funds transferred to the Hazardous Waste Control Account (HWCA) by Chapter 1504, and the remainder is proposed to be appropriated from other HWCA funds.
- ***Ban on Land Disposal of Untreated Hazardous Wastes.*** Chapter 1509, Statutes of 1986 (SB 1500), strengthens federal bans on land disposal as they apply to the disposal of untreated hazardous wastes in California. The budget proposes approximately $774,000 from the HWCA to support 6.5 positions and increased contract funds to develop treatment standards and certify alternative technologies for treating and disposing of hazardous wastes.

In addition to new legislation, other augmentations to the budget include:

- ***Site Mitigation Staff Increase.*** The budget proposes an augmentation of 40 positions and $1 million from bond funds for site mitigation activities in 1987–88. These positions would be hired in phases during the budget year and represent ongoing full-year costs of approximately $2 million.
- ***Hazardous Waste Management Augmentations.*** The budget proposes augmentations totalling $2 million from the HWCA in the budget year to increase (1) permitting staff by 68.3 positions ($1.5 million) and (2) surveillance and enforcement staff by 13.1 positions ($504,000). These positions would be hired beginning January 1, 1987.

They represent ongoing full-year costs of approximately $4 million.

- ***Clerical and Administrative Support Augmentations.*** The budget contains various proposals to increase clerical and administrative support to the regions and headquarters operations by 32.5 positions at a total cost of $1.5 million from the HWCA and bond funds.

B. DIVISIONWIDE ISSUES

Division Should Evaluate Staffing Levels for Headquarters, Overhead, and Oversight Functions

We recommend that the Legislature adopt supplemental report language directing the division to develop criteria for evaluating future needs for headquarters and oversight personnel.

The Toxic Substances Control Division is divided into the following four program areas: (1) site mitigation, (2) hazardous waste management, including permitting, inspection, and enforcement, (3) alternative technology development and dissemination, which supports both site mitigation and hazardous waste management, and (4) divisionwide administrative functions. Activities within these program areas are carried out by three regional offices, which perform site mitigation and hazardous waste management functions, the Alternative Technology Section, and the headquarters office.

After reviewing the organizational structure and staffing levels proposed for various activities in the current and budget years, we have several general concerns regarding the division's proposed distribution of personnel. First, the budget proposes to dedicate a very high percentage of staff to program direction and oversight compared to direct program duties. Second, decentralization of program functions to the regional offices does not seem to have led to corresponding redirections of base positions from the headquarters office. Third, the division has not developed any mechanisms for evaluating the extent to which oversight personnel are used in the most efficient way possible. These findings are discussed below.

Proportion of Staff Dedicated to Headquarters and Oversight Functions Is High. The *Supplemental Report of the 1986 Budget Act* required the division to construct a "zero-based" budget as part of its budget proposal for 1987–88. This budget documents how personnel are currently used within the division and to what activities they are dedicated.

Our review of the division's base budget indicates that in the current year, 35 percent of staff are involved in overhead, central planning, and administrative control activities. This means that only 65 percent of the division's staff are available for technical and clerical tasks directly related to cleaning up hazardous waste sites, permitting and inspecting facilities, and developing and testing alternative methods for reduction, treatment, and disposal of hazardous waste. Chart 1 displays the allocation of staff.

Decentralization of Program Functions Has Not Led to Redirections of Base Staffing to Regional Offices. The division has been involved in an internal evaluation of its staffing priorities and assumptions as part of the process of developing the zero-based budget. According to TSCD staff, this evaluation has led to the adoption of a new policy of decentralization of program functions away from headquarters operations toward the regional offices.

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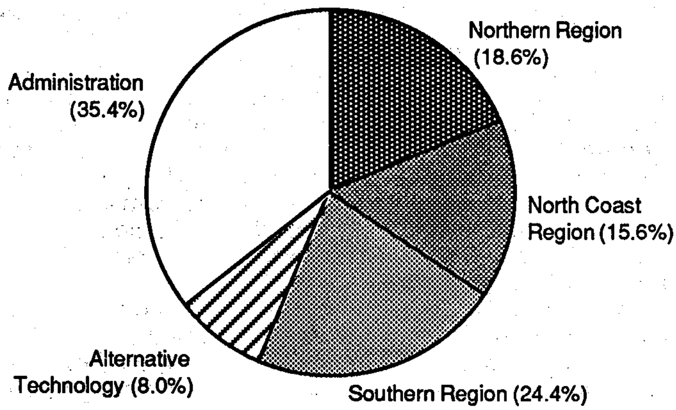
Chart 1

Toxic Substances Control Division Statewide Distribution of Staff
1986-87[a]



[a] Distribution estimated by the Legislative Analyst's Office based on budget materials submitted by the division.

The division's budget for 1987–88 indicates that proposals for *new staff* are, indeed, directed toward increasing regional staffing relative to staffing levels in the headquarters office. The budget does not propose, however, significant redirections of *base staff* from headquarters to program offices. We are concerned that the division's proposals for new program staffing in the budget year may not take into account savings that could result from possible redirections of existing administrative staff to program functions.

The Division Has Not Developed a Means for Ensuring the Efficient Use of Staff Resources. Division staff indicate that the zero-base budget provides an effective tool for evaluating program needs. Our review of the base budget indicates that, while it can provide a yardstick by which to measure future performance, it should not be misconstrued as a thorough or scientific review of work processes in the division. This is because the division's zero-based budget primarily relies on the amount of work that has been accomplished, and by what means it has been accomplished in the past. It does not evaluate the extent to which (1) work processes could be redesigned for greater efficiency or (2) existing personnel could be redirected among units to accomplish the highest priority tasks throughout the division.

Our analysis indicates that, to the extent the division relies on the zero-base budget to justify increases in personnel, the need for these increases may be overestimated. This is particularly true with headquarters and control personnel, because the division should be moving, in the next several years, out of the initial implementation phase of its program (when proportionately greater number of control and planning personnel may be necessary) to long-term maintenance and growth of program functions (when greater emphasis should be placed on the delivery of direct services).

Additional Information Is Needed. It is difficult to determine to what extent personnel located in the headquarters office dedicate portions of their time to direct service delivery, or to what extent regional office personnel dedicate portions of their time to administrative duties. Consequently, we are hampered in our ability to (1) determine the degree to which the division has overestimated its continuing need for personnel for oversight and headquarters functions and (2) advise the Legislature concerning the proper level of staffing for administrative tasks. Therefore, we recommend that the Legislature adopt supplemental report language directing the division to (1) provide a detailed estimate of the proportion of staff hours dedicated to general administrative, oversight, program planning, and monitoring activities and (2) evaluate the extent to which current positions in the headquarters office could be redirected to regional offices to effect greater program accomplishments. The following language would accomplish this recommendation:

> "The Toxic Substances Control Division shall report to the fiscal committees and to the Joint Legislative Budget Committee by December 1, 1987 concerning the level of personnel that the division has dedicated to administrative, overhead, oversight, and planning and monitoring activities. The report shall include, but not be limited to (1) a detailed estimate of the proportion of division staff dedicated to these functions for divisionwide administration, for hazardous waste management, and for site mitigation and (2) an evaluation of the extent to which (a) redirections of personnel and/or positions among units would increase the ability of the division to accomplish its highest administrative priorities and (b) redirections of personnel and/or positions from headquarters to the regional offices would increase the ability of the division to accomplish its highest program priorities without significant deterioration in administrative performance."

Proposal for New Computer Staff Is Not Justified

We recommend a reduction of $196,000 and four positions proposed for support of regional electronic data processing activities in the budget year because the current level of computer operations in the regional offices is insufficient to justify these positions (reduce Item 4260-011-014 by $88,000 and Item 4260-011-710 by $108,000).

The budget proposes an increase of four positions and $196,000 to provide support to regional staff concerning computer operations and to act as "trouble-shooters" when computer hardware problems occur in the regional offices. Division staff indicate that, based on the level of resources proposed in the budget, each regional office will have approximately 20 personal computers during 1987–88, primarily for use by clerical support personnel. The program monitoring unit located in the headquarters office has personnel capable of providing support to regional office staff when computer questions arise. Our analysis indicates that the small number of computers projected to be available to regional staff does not justify on-site regional computer operations support personnel at this time. Accordingly, we recommend a reduction of four positions and $196,000.

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C. HAZARDOUS WASTE MANAGEMENT

Resources Are Insufficient to Support Proposed Program Costs

We recommend that the division report prior to budget hearings on (1) a plan for bringing HWCA expenditures in line with fund resources in both the current and budget years and (2) an updated assessment of the HWCA revenues that will be collected in the current year.

The Hazardous Waste Control Account (HWCA) funds the state's hazardous waste management programs. The account is supported by fees assessed against (1) disposers of hazardous waste, (2) storage, treatment, and disposal facility operators, and (3) facilities that generate hazardous waste. These fees are collected by the Board of Equalization (BOE). Table 19 lists the type of fees paid to the HWCA and the level at which the fees are set in the current year. As the table shows, disposal, generator, and facility fees are set to generate 96 percent of all revenues required to support HWCA programs. The HWCA relies on fine, penalty, and miscellaneous fee collections for the remaining 4 percent of its funding.

Table 19
Hazardous Waste Control Account
Fee Structure
1986–87

Category	*Fee Rate*	*Percent of Fund Revenues*[a]
Disposal fees—per ton of waste disposed		46%
Restricted and extremely hazardous waste	$48.32	
Hazardous waste	24.16	
Waste disposed out-of-state	12.08	
Federally unregulated wastes[b]	6.04	
Ores and minerals[b]	6.04	
Auto shredder waste	6.04	
Wastes disposed to surface impoundments	2.42	
Residues of incineration or other treatment	1.21	
Generator site fees		25
Between 5 and 49 tons per year	$483	
Between 50 and 249 tons per year	966	
Between 250 and 2,499 tons per year	4,830	
At least 2,500 tons per year	9,660	
Facility fees		25
Small storage facility	$6,127	
Large storage facility	12,254	
Small treatment facility	12,254	
Large treatment facility	18,381	
Disposal facility	61,270	

[a] Required by Ch 1506/86 (AB 4283).
[b] Fees assessed only on first 5,000 tons disposed by generator each month.

Budget Proposes Deficit Spending. The budget estimates costs to the HWCA of $33 million in the current year. This amount is the sum of (1) $29.2 million in expenditures and (2) a deficit of $3.9 million carried forward from 1985–86. The budget estimates that revenues to the HWCA will be $30.8 million in the current year, leaving the fund with a $2.3 million negative balance at the beginning of the budget year.

The budget proposes costs in 1987–88 of $35.6 million, consisting of (1) $33.3 million in expenditures and (2) the deficit of $2.3 million carried forward from the current year. The budget estimates revenues of $34.9 million, resulting in a deficit of $724,000 at the end of 1987–88. Table 20 summarizes the HWCA fund condition since 1985–86.

Table 20
Hazardous Waste Control Account
Fund Condition
1985–86 through 1987–88
(dollars in thousands)

	1985–86	*1986–87*	*1987–88*
Resources			
Beginning reserves	$4,662	−$3,874	−$2,291
Revenues	9,345	30,754	34,910
Subtotals	$14,007	$26,880	$32,619
Expenditures	$17,881	$29,171	$33,343
Ending reserves	−$3,874	−$2,291	−$724

The division cannot correct the current- or budget-year deficits simply by increasing fees due to statutory restrictions on the amount of fee revenues that can be collected. The HWCA fees are set in order to generate the amount necessary to cover (1) the annual appropriation less any unobligated funds available from the prior year and (2) a reserve equal to 5 percent of the total appropriation from the HWCA. Because the deficit carried over to the budget year is greater than the 5 percent reserve amount, the deficit cannot be eliminated in the current or budget years through fees.

The administration has not determined how it will solve the fund deficit problem. It has two likely options in the short run. First, the division can curb expenditures through targeted spending cuts or across-the-board decreases. Second, the division can seek a loan from the General Fund with a repayment schedule falling within the 5 percent fund reserve.

Revenue Shortfalls Will Compound Deficit Spending Problem. The HWCA revenues for the first half of the current year are $4.8 million, or 31 percent, below the level projected at the time fees were set. If this trend continues, the HWCA could be underfunded by more than $8 million at the end of the current year. This would increase the account deficit at the beginning of the budget year to more than $10 million.

The division has indicated two reasons for the current problem in collections. First, the federal government, which owns facilities for disposal, treatment, and storage of the waste that it generates, has refused to pay facility fees. The federal government asserts that the fee amounts to a tax; federal entities are exempt from paying state taxes. Second, the generator site fee is a new fee and, according to the division, a high level of noncompliance is not unusual in these circumstances. The division expects the generator fee deficit to lessen as (1) the division obtains correct addresses for generators and notifies them of their responsibility to pay the fee and (2) facilities become more accustomed to the new fees.

Current law authorizes the division to issue emergency regulations to increase HWCA revenues to the level necessary for the operation of its programs. The division has no plans at this time to pursue emergency

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regulations to increase the fees. Nor has the division evaluated the extent to which administrative actions such as increased audits could lessen the collections shortfall.

Legislature Needs Information. Tasks supported by the HWCA include (1) the issuance or denial of permits for treatment, storage, and disposal facilities, (2) inspection of facilities, and (3) performance of site mitigation work as part of the closure process at certain facilities. The fund deficit and revenue shortfall could significantly hamper the division's ability in both current and budget years to accomplish these mandated tasks. Therefore, we recommend that the division and the Department of Finance report prior to budget hearings on (1) a plan for bringing HWCA expenditures in line with fund resources in both the current and budget years and (2) an updated estimate of the HWCA revenues which will be collected (a) if no new administrative action is taken and (b) under its plan for balancing the fund collections.

Request for New Permitting Positions Is Overbudgeted

We recommend a reduction of 32.5 positions and $783,000 from the Hazardous Waste Control Account (1) because the proposal fails to account for resources added in the current year and (2) to correct for technical errors in budgeting. (Reduce Item 4260-011-014 by $783,000.)

The budget proposes to add $1.5 million from the HWCA and 68.3 positions in order to increase permitting activities. The budget proposes to phase in the hiring of the positions, resulting in an augmentation of only 27.3 personnel-years in 1987–88. The proposal would result in the addition of 64.9 personnel-years on an ongoing basis, at an annual cost of approximately $2.7 million.

Table 21

Toxic Substances Control Division
Personnel-Years in the Permitting Program [a]
1986–87 through 1988–89

Activity	*Est. 1986–87*	*Prop. 1987–88*	*Prop. 1988–89*	*Change from 1986–87 to 1988–89 Amount*	*Percent*
Technical					
Land disposal permits (RCRA [b])	13.3	15.0	17.1	3.8	28.6%
Incineration permits (RCRA)	8.8	10.7	12.6	3.8	43.2
Land disposal closure plans (RCRA)	10.1	14.8	19.6	9.5	94.1
Permits and closures (non-RCRA)	3.2	5.6	8.0	4.8	150.0
Toxic Pits Cleanup Act	1.0	2.9	4.8	3.8	380.0
Treatment and storage facility permits	6.2	12.1	18.6	12.4	200.0
Variances and exemptions	2.7	3.4	4.6	1.9	70.4
Other technical support functions	16.0	17.7	23.9	7.9	49.4
Subtotals	61.3	82.2	109.2	47.9	78.2%
Supervisory	9.5	13.5	17.1	7.6	80.0%
Clerical	13.5	16.0	23.0	9.5	70.4
Totals	84.3	111.6	149.1	64.9	77.0%

[a] Numbers may not add due to rounding.
[b] Resource Conservation and Recovery Act (federal).

According to the department, the additional staffing is necesary in order to (1) comply with state and federal statutory deadlines for permitting facilities, (2) respond to requests for permits from facilities that are regulated only under state law, (3) comply with the Toxic Pits Cleanup Act (TPCA—Ch 1543/84), and (4) provide administrative and technical support to permitting activities. Table 21 summarizes the division's proposal for increased staff.

The proposal would expand substantially the level of staffing available to the division to implement the permitting program required by federal and state law. The addition of 27.3 personnel-years in 1987–88 would increase the level of staffing available for permitting by 32 percent over the current-year staffing level; the addition of 64.9 personnel-years on an ongoing full-year basis represents an increase of 77 percent over current staffing levels.

Based on our review of the proposal, we recommend reducing the division's proposal for new permitting staff by 32.5 positions, for savings to the HWCA of $783,000 in the budget year. Specifically, we identified the following instances of overbudgeting:

Proposal Fails to Justify Requested Permitting Positions (Reduce 3.5 Positions). The division requests an increase of 50.3 technical positions to be hired in phases during the second half of the budget year. This represents an increase in technical staffing available to the division's permitting program of 20.9 personnel-years in 1987–88 and 47.9 personnel-years in future years. The division, however, estimates a need only for an additional 44.5 technical personnel-years for ongoing permitting workload. This is 3.4 personnel-years—or 3.5 positions—less than the level proposed in the budget.

Proposal Does Not Take Into Account Offsetting Workload Decreases in Other Areas (Reduce 2 Positions). The budget proposes to increase geotechnical (geologist and hydrologist) support to the permitting program by two positions. This proposal, however, does not take into account increases in regional geotechnical support for the site mitigation program. These increases in site mitigation support should free up staff hours in the headquarters geotechnical support unit that can be redirected to the permitting program, therefore the two positions are not necessary.

Clerical Reduction Needed in Order to Maintain Proper Staffing Ratios (Reduce 2 Positions). The division proposes to augment clerical staffing by 10 positions to support 50.3 new technical and 8 new supervisorial positions. The division's policy is to propose clerical staffing based on a ratio of 1 clerical position to every 7 professional positions. Based on the technical and supervisorial staffing level that the proposal actually justifies, 8 clerical positions—a reduction of 2 positions—would be sufficient to provide the proper clerical staffing ratio.

Proposal Fails to Account for Current-Year Increases in Staffing (Reduce 25 Positions). The Legislature approved 26 new positions for permitting beginning in the current year based on claims by the division that requirements under the TPCA substantially increased permitting workload. According to the division, however, this workload has failed to materialize. Currently, the division has 1 position dedicated to permitting activities associated with the TPCA. Our review indicates that the division is overbudgeted by 25 positions in the current year for this activity. These positions are therefore available for redirection to other permitting activities in the budget year.

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New Staff Are Not Needed for Developing Highest Priority Policies

We recommend a reduction of $68,000 from the Hazardous Waste Control Account and four positions because these resources are not necessary for developing policies and procedures that the division has determined to be of the highest priority (reduce Item 4260-011-014).

The division proposes to augment the number of personnel available to develop hazardous waste management policies and procedures by four positions beginning January 1988. The 1987–88 costs of these positions is $68,000; full-year costs in future years will be $136,000. One position is proposed to support permitting procedures development; three positions will support procedures development for the surveillance and enforcement program.

The division contends that, in a program area which is changing and expanding as rapidly as the field of hazardous waste management, there is no lack of operating procedures and program policies that could be developed. Staff of the division also state, however, that the current level of staffing is sufficient to ensure that the 20 highest ranked policies and procedures are developed each year. Staff also contend that this is a workable number of new policies to implement given the need for proper field training of personnel concerning changes in operating practices that may be occasioned by the new policy.

Based on the division staff's own analysis of its current ability to develop necessary policies and procedures, we recommend that the budget proposal for four new positions to develop hazardous waste management policies and procedures be rejected for a savings to the HWCA of $68,000.

Costs of Land Disposal Restriction Programs Are Overestimated

We recommend a reduction of 1.3 positions and $58,000 from the Hazardous Waste Control Account because the implementation costs of new statutory requirements are overestimated (reduce Item 4260-011-014).

Chapter 1509, Statutes of 1986 (SB 1500), requires the division to restrict land disposal of untreated hazardous waste. In addition, Chapter 1509 requires the division to adopt treatment standards for the land disposal of hazardous waste. Both the disposal restrictions and the treatment standards must be implemented by 1990.

The division has 10 positions dedicated to the land disposal restriction and treatment standards programs in the current year. The budget proposes to augment this staffing level by 6.5 positions and $793,000 from the Hazardous Waste Control Account (HWCA). These new staff are proposed to enhance the ability of the Alternative Technology Section to (1) develop criteria for the disposal of liquid hazardous wastes in landfills, (2) adopt treatment standards for specific hazardous wastes, and (3) process and grant variances to the land disposal restriction program.

Chapter 452, Statutes of 1986 (AB 4165), requires the division to notify neighboring states and Mexico concerning restrictions placed by California on the land disposal of hazardous wastes. The budget proposes 0.3 personnel-year to support this activity, at an approximate cost of $11,000 to the HWCA. The partial personnel-year would be dedicated to (1) developing a list of agency contacts in other states and Mexico, (2) developing notification forms and procedures for notification, and (3) sending notices when required.

Our review of the staffing proposal for these new legislative requirements indicates that the division does need some new staff to handle increased workload. Our review further indicates, however, that the budget overestimates both the level of continuing workload and the cost of the positions. Specifically, the budget (1) does not account for work associated with Chapter 1509 that can be absorbed within existing resources (1 position), (2) overestimates the level of workload associated with Chapter 452 that cannot be absorbed within existing staff resources (0.3 positions), and (3) fails to budget all positions at the beginning pay step. Therefore, we recommend a reduction of 1.3 positions and $58,000 from the HWCA to correct for overestimated workload and technical budgeting errors.

Cost of Disclosure Program Is Overestimated

We recommend a reduction of 1.5 positions and $53,000 from the HWCA for the implementation of new hauler and facility disclosure requirements because these costs have been overestimated.

Chapter 1304, Statutes of 1986 (AB 4308), requires individuals applying for a hazardous waste hauler's registration or a hazardous waste facility permit to disclose specified information at the time of the application and requires individuals who currently are registered as haulers or who currently hold facility permits to file this information with the division by January 1, 1989. Disclosure statements must include information on partners, officers, permits held in other states or localities, violations of hazardous waste rules, license suspensions, license revocations, and other information. Based on information supplied in the disclosure statement and background checks performed as follow-up to the disclosure statement, the division may (1) revoke, suspend, or deny hazardous waste hauler registration where a felony conviction has occurred and (2) prohibit contractors from bidding on jobs to remove hazardous wastes under certain conditions.

Chapter 1304 authorizes the division to charge fees for deposit to the HWCA to cover implementation and ongoing costs of managing the disclosure program, and appropriates $240,000 from the HWCA for the purposes of implementing the program.

The budget proposes four positions at a cost of $152,000 to the HWCA to implement these new statutory requirements. These positions would be administratively established in the current year at a cost of $55,000.

Our review of the division's proposal indicates that the budget proposes workload in 1987–88 which should be substantially completed in the current year with the administratively established positions. This one-time workload includes: development of the disclosure form (0.2 position), development of reporting procedures (0.5 position), and development of fee regulations (1.0 position). In fact, the only workload associated with the implementation of Chapter 1304 that is *not* of a one-time nature is the ongoing review of disclosure statements submitted to the division (2.3 positions). Allowing for some regulatory development work to continue into the budget year, we estimate that the program will need 2.5 positions in 1987–88, not the four positions proposed. Therefore, we recommend a reduction of 1.5 positions and $53,000 from the HWCA to correct for overbudgeting of costs associated with the implementation of Chapter 1304.

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D. SITE MITIGATION

The budget proposes expenditures totalling $63.5 million for the cleanup of hazardous waste sites in 1987–88. This is an increase of $20.3 million, or 47 percent, over estimated current-year expenditures. Table 22 displays the division's expenditures for site mitigation for the past, current, and budget years.

Table 22
Site Mitigation Program
Expenditures and Funding Sources
1985–86 through 1987–88
(dollars in thousands)

Funding Sources	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Change From 1986–87 Amount*	*Change From 1986–87 Percent*
Hazardous Substances Cleanup Fund	$34,322	$9,534	$48,979	$39,445	413.7%
Hazardous Substance Account	15,727	15,897	12,585	−3,312	−20.8
Federal funds	10,000	—	—	—	—
Responsible parties	—	942	942	—	—
Other funds	−16,224	16,861	1,026	−15,835	−93.9
Totals	$43,825	$43,234	$63,532	$20,298	46.9%

As Table 22 shows, the increase consists entirely of a 414 percent increase in the expenditure of bond funds from the Hazardous Substance Cleanup Fund (HSCF), partially offset by decreases in other funding sources. This increase in bond expenditures is the result of (1) the division spending in 1987–88 bond funds carried over from 1986–87 and (2) a decision to shift some expenditures from the Hazardous Substance Account (HSA) to the HSCF.

Hazardous Substance Account in the Red

We recommend that the division and the Department of Finance report to the fiscal committees prior to budget hearings concerning the condition of the Hazardous Substance Account and the administration's plan to remedy the current-year deficit.

The Hazardous Substance Account (HSA) is supported by fees paid on all hazardous waste disposed to land. Fees are set annually to generate $15 million, the level at which the fund is capped. Revenues to the account can exceed the fee resources by (1) the amount collected from responsible parties during the year and (2) penalty assessments.

Table 23 displays the fund condition of the HSA for the past, current, and budget years. As the table shows, the budget estimates that the HSA will have a deficit at the end of the current year totalling $1.8 million. The budget proposes that the HSA end 1987–88 in a slightly improved position: with a deficit of $1.5 million.

Staff of the division and the Department of Finance indicate that the deficiency may not be a problem because the budget figures do not account for savings to the account that are likely to occur in the current year. These savings would avert the need for a loan from another fund or spending restrictions. At the time this analysis was written, however, we had received no specific information from the administration concerning (1) program areas in which these savings are likely to occur, (2) effects on overall program performance from savings, or (3) the extent to which the division is actively seeking savings through administrative policies.

Table 23
Hazardous Substance Account
Fund Condition
1985–86 through 1987–88
(dollars in thousands)

	1985–86	*1986–87*	*1987–88*
Resources			
Beginning reserves	$756	$1,025	–$1,843
Revenues	18,831	16,192	16,192
Subtotals	$19,587	$17,217	$14,349
Expenditures			
Toxic Substances Control Division	$15,868	$15,918	$12,585
Other agencies	2,694	3,142	3,225
Subtotals	$18,562	$19,060	$15,810
Ending reserves	$1,025	–$1,843	–$1,461

As a result, we are unable at this time to inform the Legislature as to the likelihood of a need for a loan to the HSA to cover the current-year deficit or the actual level of site mitigation performance that the Legislature can expect to be supported by the HSA in 1986–87. Therefore, we recommend that the division report prior to budget hearings concerning (1) any revision in current-year revenue and expenditure estimates for the HSA and (2) the extent to which any administrative measures are planned by the administration to eliminate the deficit.

Bond Expenditures for Site Mitigation

We withhold recommendation on $14,940,000 requested from the Hazardous Substances Cleanup Fund, pending receipt of overdue reports from the division.

In 1984 the voters authorized $100 million in bond funding to clean up hazardous waste sites. Chapter 1439, Statutes of 1985 (AB 129), appropriated $87.8 million of these funds for characterizing sites (that is, determining the type and extent of contamination) and mitigating (cleaning up) contamination at a site once a remedial action plan is developed and approved. The enactment of Chapter 1439 left a total of $12.2 million in bond funds available for appropriation through the budget process for administrative expenses associated with the bond program. The budget estimates that $11 million of the administrative funds will be spent by the end of the current year, leaving $1.2 million available in 1987–88. The budget estimates that $37 million of the $87.8 million appropriated in Chapter 1439 will be expended by the end of the current year, leaving $50.8 million available in 1987–88.

The budget identifies expenditures of $52.1 million in 1987–88—the full amount of bond funds available. Specifically, the budget estimates that $37.2 million will be spent in 1987–88 from the Chapter 1439 appropriation for site characterization and other mitigation activities. The budget proposes an appropriation of $14.9 million from bond funds for administrative expenditures. This amount consists of $1.2 million from the funds originally made available for administration and $13.7 million reappropriated

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from funds allocated by Chapter 1439 to site characterization and mitigation.

We have several concerns related to the proposal for bond expenditures in the budget year and the division's past performance with respect to the site mitigation program. Specifically, these concerns include:

1. ***Division Fails to Provide Essential Information.*** State law directs the department to (a) submit an expenditure plan for the use of bond act funds as part of the Governor's Budget and (b) report by October 1 of each year specified information concerning site mitigation activities during the previous fiscal year. At the time this analysis was prepared, neither the expenditure plan nor the annual report had been released. The expenditure plan serves as the basis for (a) the division's estimate and projections of the number of sites being cleaned up by the state and the date at which various site mitigation activities will be completed and (b) the division's request for state staff and expenses to operate the mitigation program. The annual report is useful as a "yardstick" for evaluating the division's past performance in meeting the bond expenditure plan estimates. Without these two reports, the Legislature is missing information essential to the evaluation of (a) past program performance and (b) whether budgetary promises for the future are realistic.

2. ***Division Has A Poor Record of Delivering on Expenditure Promises.*** The division originally planned to expend all $100 million of the bond funds during 1985–86, the first year of the bond program. The division subsequently proposed to expend all of the funds within two years (by the end of the current year). Now, the budget proposes to carry over $52.1 million available for expenditure in 1986–87 to 1987–88. This means that the budget proposes to expend over 50 percent of the bond funds in one year—a goal that the division has not come close to meeting in past years. Given past performance, we are skeptical of the division's ability to actually spend all remaining bond funds during the budget year.

3. ***Administrative Costs Are High.*** The administration originally proposed to spend no more than $12.2 million—or 12 percent—of available bond funds for administrative expenses. Information supplied by the division concerning actual expenditures to date indicate, however, that administrative expenditures have exceeded this percentage by a substantial margin. For example, in 1985–86 the division spent 98 cents on bond administration for each dollar encumbered for mitigation activities. If the spending projections contained in the budget are accurate, approximately 25 percent of the $100 million of bond funding would be spent for administration and 75 percent would be spent for site characterization and mitigation. If the division's poor record on cleanups continues, and the bond funds are *not* exhausted in 1987–88, the percent of funds ultimately spent on administration is likely to be even higher than 25 percent.

Legislature Needs More Information. Information contained in the bond expenditure plan and the annual report are essential in order for the Legislature to evaluate the budget proposal. This information also will be important for evaluating the extent to which the budget represents realistic goals for the site mitigation program in 1987–88 in light of the division's past performance. These reports should provide answers to the following questions:

- To what extent does the budget proposal represent a reasonable apportionment of costs between administration and site mitigation?

- Is it reasonable to assume that the remaining bond funds will be spent in the budget year?
- Are administrative expenditures likely to deplete further site mitigation funding that may be carried over to future years?

Until the reports are released and we are able to evaluate the budget proposals in light of both the workload detailed in the expenditure plan for 1987–88 and the information on division performance during 1985–86, we cannot answer these questions. Hence, we have little basis for recommending approval of the 1987–88 budget proposal at this time. Accordingly, we withhold recommendation on $14,940,000 requested from the Hazardous Substances Cleanup Fund, pending receipt of the overdue reports.

Long-Term Funding Shortfall for Site Mitigation

We recommend that the division report prior to budget hearings regarding its proposal for funding future-year cleanup costs of toxic waste sites.

The 1986–87 bond expenditure plan identified approximately $133 million in mitigation costs associated with known sites through 1990–91. This is $33 million more than is available from bond funds approved by the voters in 1984. Preliminary estimates for 1987–88 indicate that there may be more than $72 million in unfunded costs associated with sites already identified by the division.

We believe that it is important to ensure continued access to funds for site mitigation efforts. In addition, it is important to identify the sources and level of funding available as early as possible to facilitate planning tasks associated with the cleanup of toxic waste sites. Accordingly, we recommend that the division report prior to budget hearings concerning the administration's proposal for ensuring future funding of toxic waste site mitigation efforts.

Division Should Take Responsibility for Implementing Responsible-Party Collections Program

We recommend that the division report prior to budget hearings concerning (1) its program for increasing responsible-party collections and (2) a revised estimate of responsible-party collections in light of the program proposed by the division.

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 a responsible party cannot be identified.

Even where responsible parties agree to fund cleanup costs, the state still incurs costs for overseeing and monitoring the responsible party's efforts. State law directs the department to recover from responsible parties the administrative cost, including interest, that can be attributed to these parties. Recoveries of state costs are important because, depending on when they occur in the process, they may either (1) increase funding available for cleanup activities at other sites or (2) decrease potential General Fund liabilities for bond payments.

The budget estimates that the division will collect $942,000 from responsible parties in 1987–88 for state costs associated with the cleanup of hazardous waste sites. This is the same amount as is estimated to be collected

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from responsible parties in the current year. Our analysis indicates that lack of growth in responsible-party collections is primarily due to the lack of a cohesive and comprehensive program to monitor costs and enforce private-party financial responsibilities for the cleanup of waste sites.

The budget proposes 1.5 new positions to perform accounting functions associated with recovering costs from responsible parties. Detailed cost-accounting information is necessary for the division to ensure that it is seeking to recover 100 percent of state costs when it collects from a responsible party. Although this proposal indicates the division recognizes a need to strengthen its responsible-party collections program, staff indicate that planning for increasing responsible-party collections has begun only recently and is still in the preliminary stages. As a result, the division is unable to answer some very basic questions concerning the intended program for responsible-party collections. Such questions include:

- Should the state primarily rely on negotiations or enforcement action to collect from responsible parties?
- To what extent should the division compromise full recovery of costs in order to negotiate a settlement agreement with a responsible party?
- Which unit within the division should be designated the lead for the purpose of ensuring collections from responsible parties?
- What should be the process for escalating from negotiating settlement of costs to court action enforcing payment?

We believe it is important for the division to develop a consistent and workable program for effecting responsible-party collections because these collections (1) can play a significant role in increasing the total number of site cleanups in which the state participates and (2) may limit the long-term liability of the General Fund for the cost of the bond program. Accordingly, we recommend that the division report prior to budget hearings concerning (1) its proposal for increasing responsible-party collections and (2) a revised estimate of responsible-party collections in light of the program proposed by the division.

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 $5.2 billion ($2.5 billion General Fund) in 1987–88, including $116 million ($42.2 million General Fund) for state administration. The total level of General Fund expenditures proposed for Medi-Cal in the budget year represents a reduction of $2.3 million, or 0.1 percent, as compared with estimated expenditures in the current year.

Table 24 shows Medi-Cal expenditures for 1985–86 through 1987–88.

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

Table 24
Medi-Cal Program
Expenditures and Funding
1985–86 through 1987–88
(dollars in thousands)

	Fund	Actual 1985–86	Est. 1986–87	Prop. 1987–88	Percent Change
Health care services	State	$2,299,949	$2,387,394	$2,379,961	−0.3%
	All	4,632,977	4,878,227	4,855,468	−0.5
County administration	State	53,207	62,557	71,469	14.2
	All	161,056	135,797	148,345	9.2
Claim processing	State	6,521	11,497	11,147	−3.0
	All	31,447	44,685	37,678	−15.7
Subtotals	State	$2,359,677	$2,461,448	$2,462,577	—
	All	4,825,480	5,058,709	5,041,491	−0.3%
State administration	State	37,517	41,027	42,159	2.8
	All	108,478	113,538	115,993	2.2
Totals	State	$2,397,194	$2,502,475	$2,504,736	0.1%
	All	4,933,958	5,172,247	5,157,484	−0.3

authorization of certain types of treatment prior to delivery, audits provider costs, recovers payments due from private insurance companies and other sources, reviews county eligibility determinations, and manages various contracts with private vendors for processing of provider claims. Other state agencies, including the California Medical Assistance Commission and the Department of Social Services, perform Medi-Cal-related functions under agreements with DHS.

County welfare departments, along with the health department in Los Angeles County, determine the eligibility of applicants for Medi-Cal. In addition, many counties receive Medi-Cal reimbursements for services delivered to Medi-Cal eligible individuals treated in county hospitals and outpatient facilities.

The federal Department of Health and Human Services, through its Health Care Financing Administration, provides policy guidance and financial support for the Medi-Cal program.

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 two programs—Aid to Families with Dependent Children (AFDC) and Supplemental Security Income/State Supplementary Program (SSI/SSP). 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. Individuals who are not eligible for a cash grant due to their income can become eligible for Medi-Cal if their medical expenses require them to "spend down" their incomes to 133⅓ percent of the AFDC payment level specified for their household size. Medically needy beneficiaries who reside in long-term

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care facilities are required to pay all but $35 of their monthly income toward the costs of their care.

The *medically indigent* are individuals 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, Users, and Expenditures by Eligibility Category in 1987–88

Eligibles. Table 25 shows the average number of persons per month that were eligible for Medi-Cal in each eligibility category in 1985–86 and the number that the budget estimates will be eligible in 1986–87 and 1987–88. The table shows that an average of 3,051,800 persons will be eligible for Medi-Cal benefits each month during 1987–88. This is 35,600 individuals, or 1.2 percent, more than the average number of beneficiaries eligible in the current year. The budget projects that 2,723,800 persons will be eligible to receive benefits on a fee-for-service basis and 328,000 persons will be enrolled in various prepaid plans.

Table 25

Average Monthly Medi-Cal Program Eligible Recipients By Eligibility Category 1985–86 through 1987–88

	Actual 1985–86	Est. 1986–87	Prop. 1987–88	Change from 1986–87 Amount	Change from 1986–87 Percent
Categorically needy					
AFDC	1,776,700	1,825,500	1,843,700	18,200	1.0%
SSI/SSP	705,400	724,100	740,400	16,300	2.3
Medically needy					
Families	217,100	222,500	221,600	−900	−0.4
Aged, blind, or disabled	53,200	56,900	57,600	700	1.2
Long-term care	65,200	66,100	66,800	700	1.1
Medically indigent					
Children	101,100	104,500	105,300	800	0.8
Adults	7,500	8,000	7,800	−200	−2.5
Other [a]	9,100	8,600	8,600	—	—
Totals	2,935,300	3,016,200	3,051,800	35,600	1.2%

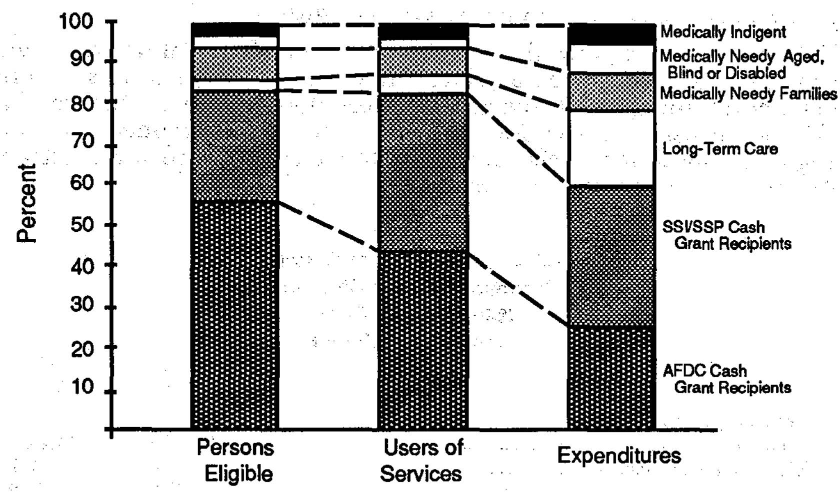
[a] Includes renal dialysis patients and refugees.

Fee-for-Service Users. Not all of the persons who are eligible to receive services under the Medi-Cal program actually use their benefits in any given month. The budget anticipates that 1,377,200 individuals, or about 50 percent of the fee-for-service eligibles, will actually use their benefits in the average month in 1987–88. The department does not keep statistics reflecting the use of services by beneficiaries enrolled in prepaid health plans.

Expenditures by Eligibility Category. Chart 2 shows the percentages of eligibles, users of services, and expenditures that each eligible group is anticipated to account for in 1987–88. As the chart shows, families receiving AFDC grants constitute 58 percent of Medi-Cal eligibles but are responsible for only 44 percent of the users of services, and for 25 percent of fee-for-service expenditures. SSI/SSP recipients, on the other hand, make up 26 percent of the caseload and account for 35 percent of the expenditures. Long-term care residents account for only 2 percent of the caseload, yet they account for 20 percent of expenditures. The share of expenditures attributable to the medically indigent and medically needy is roughly proportional to their respective shares of the Medi-Cal eligible population.

Chart 2

Medi-Cal Eligibles, Users and Costs Percent by Eligibility Category 1987-88



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.

DEPARTMENT OF HEALTH SERVICES—Continued

Estimates Will Be Updated in May

We withhold recommendation on $5 billion ($2.5 billion General Fund) requested for local assistance under the Medi-Cal program, pending review of revised Medi-Cal expenditure estimates to be submitted in May.

The proposed expenditures for the Medi-Cal program are based on actual program costs through August 1986. The department will present revised estimates in May, which will be based on program costs through February 1987. Because the revised estimates will be based on more recent experience, the estimates will provide the Legislature with a more reliable basis for budgeting 1987–88 expenditures. We therefore withhold recommendation on the amounts requested in local assistance for the Medi-Cal program, pending review of the May estimates.

A. MEDI-CAL HEALTH SERVICES

General Fund Deficiency of $178.3 Million in 1986–87

The budget anticipates that expenditures for Medi-Cal health services during 1986–87 will exceed available funds by $352.7 million ($178.3 million General Fund). As Table 26 shows, the department's estimate of the deficiency consists of a variety of items that can be grouped into three categories: unfunded costs, unanticipated changes, and administrative initiatives to reduce expenditures.

Table 26
Medi-Cal Health Care Services
Proposed Budget Changes
1986–87 and 1987–88
(dollars in millions)

1986–87	*General Fund*	*All Funds*
Funds available, 1986 Budget Act		
1. Health benefits item	$2,179.0	$4,456.7
2. Refugee reimbursements	—	21.7
3. Rate item	17.0	34.0
4. Abortion item	13.1	13.1
Subtotals, 1986–87 expenditures (Budget Act)	$2,209.1	$4,525.5
Unfunded costs		
1. Arbitrary reduction in the estimate	115.2	233.2
2. Veto to adjust for claims acceleration	25.0	50.0
3. Veto of funds for nonsteroidal anti-inflammatory drugs	10.7	21.4
4. Veto of funds for hospital rate increases	3.0	6.0
5. Long-term care rate increases	19.6	39.0
6. Abortions	14.6	13.0
7. Monterey County Special Health Authority	3.4	3.4
Subtotals, unfunded costs	$191.5	$366.0
Unanticipated changes		
1. Reduced savings from enhanced cost avoidance	9.7	19.3
2. Increase in dental contract	5.4	10.8
3. Reduced savings from augmented medical review	2.5	5.0
4. Additional checkwrite	26.0	52.0
5. Unanticipated policy changes and court cases	−0.8	−6.1
6. Midyear adjustments to basic estimate	3.1	3.4
Subtotals, unanticipated changes	$45.9	$84.4
Administrative initiatives to reduce expenditures		
1. 10 percent reduction in provider rates	−18.7	−37.4
2. Patterns-of-treatment utilization review	−4.2	−8.3

3. Checkwrite schedule adjustment	−26.0	−52.0
4. Transfer of W&I Code 14157.6 funds	−10.2	—
Subtotals, expenditure reductions	−$59.1	−$97.7
1986–87 expenditures (revised)	$2,387.4	$4,878.2
Deficiency	$178.3	$352.7
1987–88		
Adjustments to baseline expenditure estimate		
1. Increase in use of services	$74.9	$152.3
2. Elimination of 1986–87 one-time savings and costs	63.3	100.0
3. Full-year costs of 1986–87 provider rate increases	5.1	10.2
4. Full-year costs of 1986–87 beneficiary COLA "spin-off"	6.1	12.2
5. Full-year savings and costs of 1986–87 program changes	−12.5	−21.9
6. Statutory provider rate increases, 1987–88	7.8	15.7
7. 1987–88 beneficiary cost-of-living (COLA) "spin-off"	7.3	14.6
8. Changes in non-fee-for-service costs	10.7	22.1
9. Other adjustments	−7.0	−18.0
Subtotals, baseline adjustments	$155.7	$287.1
Proposed program changes		
1. Program restructuring	−125.0	−250.0
2. Cost avoidance/recovery enhancement initiatives	−24.5	−48.9
3. Restrictions on abortions	−14.7	−12.9
4. Six-month postponement of AFDC COLA	−4.5	−9.0
5. San Mateo County health system	4.2	8.4
6. ICF/DD-H supervision rate increase	1.3	2.6
Subtotals, proposed program changes	−$163.1	−$309.9
1987–88 expenditures (proposed)	$2,380.0	$4,855.5
Change from 1986–87:		
Amount	−$7.4	−$22.0
Percent	−0.3%	−0.5%

1. ***Unfunded Costs.*** The major reason that there will be a deficiency in the Medi-Cal program in the current year is that the 1986 Budget Act did not include funds for all of the predictable costs of the program. This occurred in the following areas:

- ***Arbitrary Reduction in the Estimate ($115.2 Million General Fund).*** The Department of Finance reduced the expenditure estimates that it received from the Department of Health Services (DHS) to account for the possibility that the estimates were too high. It is now clear that the arbitrary reduction imposed on the DHS' estimate by the Department of Finance was not merited. The original expenditure estimates submitted by DHS were substantially correct.
- ***Veto to Adjust for Claims Acceleration ($25 Million General Fund).*** The Governor vetoed $50 million ($25 million General Fund) from the Medi-Cal budget to "adjust for . . . an acceleration of provider claims received in the current year." Had such an acceleration occurred, it would have resulted in a shift of costs from 1986–87 back to 1985–86. There is no evidence, however, that providers actually accelerated their normal claiming patterns.
- ***Veto of Funds for Nonsteroidal Anti-Inflammatory Drugs (NSAIDS) ($10.7 Million General Fund).*** The Governor vetoed $21.4 million ($10.7 million General Fund) from the budget that was intended to cover the costs of providing NSAIDS through the Medi-Cal program, as required by law. Since there was no statute enacted to eliminate the requirement to provide these drugs, the veto did not restrict the availability of the drugs to beneficiaries; instead, it created a deficiency.

DEPARTMENT OF HEALTH SERVICES—Continued

- ***Veto of Funds for Hospital Rate Increases ($3 Million General Fund).*** The Legislature augmented the 1986 Budget Bill by $30 million ($15 million General Fund) to cover the costs of increases in the rates paid to hospitals under contract with the Medi-Cal program. In vetoing these funds, the Governor stated that "it would be inconsistent with the fundamental basis of negotiation to budget a general increase." The department now estimates that the costs of rate increases granted to contract hospitals for 1986–87 will total $6 million ($3 million General Fund).
- ***Long-Term Care Rate Increases ($19.6 Million General Fund).*** In our *Analysis of the 1986–87 Budget Bill*, we recommended that the department include an estimate of the costs of statutorily required increases to the rates paid to long-term care facilities (nursing homes and state hospitals). Even though the department was able to produce a reasonably accurate estimate of the costs of these increases, the costs were not included in the budget through the May revision process.
- ***Abortions ($14.6 Million General Fund).*** The Budget Act includes a provision that prohibits the Medi-Cal program from paying for abortions except under limited circumstances (in rape cases, for example). Substantially the same provision has been included in every Budget Act for the last several years. Each year the courts have ruled that the provision unconstitutionally restricts abortions. The courts overturned the restrictive abortions provision in August 1986, with the result that the program will pay $14.6 million more for abortions in 1986–87 than was provided in the 1986 Budget Act.
- ***Monterey County Special Health Authority ($3.4 Million General Fund).*** The Budget Act authorized the transfer of up to $3.4 million from the Health Care Deposit Fund to cover the state's costs associated with the bankruptcy of this special health authority. The Budget Act did not, however, increase the expenditure authority of the department by this amount or appropriate funds to cover the transfer.

2. ***Unanticipated Changes.*** In addition to the unfunded costs discussed above, the budget identifies the following major unanticipated changes that result in increased costs in 1986–87:

- ***Reduced Savings From Enhanced Cost Avoidance ($9.7 Million General Fund).*** This program was implemented to identify Medi-Cal beneficiaries who are also covered by private health maintenance organizations. The department has reduced its estimate of the savings that will result from this program from $10 million to $330,000 because the number of eligibles covered by private insurance is less than anticipated.
- ***Increase in the Dental Contract ($5.4 Million General Fund).*** The department contracts with Delta Dental to provide dental care to Medi-Cal beneficiaries on a capitated basis (that is, Delta receives a predetermined monthly payment for each eligible beneficiary). The contracted monthly rate is renegotiated each year. The rate negotiated for the current year was about 12 percent higher than anticipated in the Budget Act.
- ***Additional Checkwrite ($26 Million General Fund).*** Each year, the Controller establishes a schedule for writing checks to pay Medi-Cal providers. Typically, the schedule calls for four checkwrites per month. The schedule for 1986–87 included one more checkwrite than

the Budget Act anticipated. The additional checkwrite results in a shift of costs into 1986–87 that would otherwise be incurred in 1987–88.

3. ***Administrative Initiatives to Reduce Expenditures.*** The total General Fund deficiency resulting from the unfunded costs and unanticipated changes discussed above is $237.4 million. The administration has identified the following initiatives to reduce expenditures and thereby reduce the amount of the deficiency appropriation needed to cover these costs:

- ***Provider Rate Reductions ($18.7 Million General Fund).*** The administration announced on December 23, 1986 that it would reduce the rates paid to most Medi-Cal providers by 10 percent, from February 1 to June 30, 1987. State law authorizes the Director of Health Services to impose such reductions for the duration of the fiscal year whenever he anticipates that the costs of the program are likely to exceed the funds available. While the rate reduction affects most providers, including physicians, dentists, and clinics, it does not affect many of the most costly and most heavily used services, such as hospital inpatient care and long-term care facilities. At the time this Analysis was prepared, the Department was under two temporary restraining orders prohibiting implementation of the reductions.
- ***Patterns-of-Treatment Utilization Review ($4.2 Million General Fund).*** The administration proposes to negotiate a change order with the Medi-Cal fiscal intermediary to implement this program. While the specific activities that would be undertaken by the fiscal intermediary have yet to be determined, the basic thrust of the program would be to use existing computerized billing data to identify inappropriate patterns of medical treatment. When such cases are identified, they would be subject to closer scrutiny by physicians employed by the fiscal intermediary. The department estimates that this program will save $50 million ($25 million General Fund) annually and $8.4 million ($4.2 million General Fund) during the two months it is anticipated to be in operation in 1986–87.
- ***Checkwrite Schedule Adjustment ($26 Million General Fund).*** The administration proposes to delay the "additional," unbudgeted checkwrite and thereby shift $52 million ($26 million General Fund) of current-year costs into 1987–88.
- ***Transfer of Welfare and Institutions Code Section 14157.6 Funds ($10.2 Million).*** The budget anticipates using $10.2 million from a federal audit settlement to offset General Fund costs in 1986–87. In its most recent estimate, however, the department has revised the amount of the settlement to $8 million.

Potential Additional Costs

In addition to the amounts displayed in Table 26, the department has identified *potential* General Fund costs in 1986–87 totaling $198.5 million. These costs consist of (1) a potential speed-up of payments to the federal government totaling $91.6 million pursuant to a variety of outstanding audits, (2) a potential settlement of state obligations to the County of Los Angeles and the federal government totaling approximately $45 million, and (3) a potential federal audit exception of $51.9 million involving institutions for mental disease. These items are not included in the current estimate of the deficiency because of substantial uncertainty regarding the exact amounts involved and the timing of payment, or even whether the state will incur any costs at all.

DEPARTMENT OF HEALTH SERVICES—Continued

Proposed Changes for 1987–88

Table 26 also displays the changes proposed for the Medi-Cal program in 1987–88. The table groups these changes into two categories: (1) adjustments to baseline expenditure estimates and (2) proposed program changes.

1. *Adjustments to Baseline Expenditure Estimates.* The table shows that adjustments to the baseline expenditure estimate result in a net increase in the anticipated costs of the program of $287.1 million ($155.7 million General Fund). This represents an increase of approximately 6.5 percent over estimated expenditures in the current year.

Table 26 shows that the department's basic caseload and users estimate indicates that an increase in use of service will account for $152.3 million ($74.9 million General Fund) in additional costs. This increase is primarily attributable to increases in the numbers of AFDC and SSI/SSP cash grant recipients.

The other major baseline adjustment shown in Table 26 is an adjustment for the elimination of one-time savings and costs in 1986–87. The largest single adjustment in this category is the adjustment for the shift of the additional checkwrite. By rescheduling the checkwrite from late 1986–87 to early 1987–88, the administration's proposal would result in a one-time savings in 1986–87. The budget "adds back" the $26 million into the baseline budget for 1987–88. All of the adjustments in this category reflect similar effects.

2. *Proposed Program Changes.* As Table 26 shows, the budget proposes a variety of changes to the Medi-Cal program that will result in a net savings of $309.9 million ($163.1 million General Fund). The proposed program changes consist of the following items:

- ***Program Restructuring ($125 Million General Fund).*** The budget proposes to reduce General Fund expenditures for Medi-Cal by $125 million. This reduction would be accomplished by unspecified changes in the program, which the budget anticipates will be identified by the Legislature and the administration over the next few months.
- ***Cost Avoidance and Recovery Initiatives ($24.5 Million General Fund).*** This represents a variety of measures proposed by the administration to reduce Medi-Cal costs. The largest single item ($25 million General Fund) is the first full year of operation of the patterns-of-treatment utilization review project proposed to begin in May 1987.
- ***Restrictions on Abortions ($14.7 Million General Fund).*** The budget includes a provision that would prohibit the use of Medi-Cal funds to pay for most abortions. The net effect of the restrictions would consist of (1) a General Fund savings of $16.4 million resulting from the elimination of Medi-Cal funding for most abortions and (2) an increase of $3.5 million ($1.8 million General Fund) due to increased delivery and infant care costs for the 25 percent of noncovered abortions in which, according to the department, the mother would carry the baby to term in the absence of a Medi-Cal-funded abortion.
- ***Six-Month Postponement of AFDC Cost-of-Living Adjustment ($4.5 Million General Fund).*** The budget proposes to postpone the date on which the statutorily required AFDC cost-of-living adjustment (COLA) goes into effect from July 1, 1987 to January 1, 1988. The

postponement would reduce Medi-Cal costs by $4.5 million by delaying the "spin-off" costs of the AFDC COLA on the Medi-Cal program. These costs occur when increases in the AFDC grant level (1) reduce the share of cost required of medically needy beneficiaries and (2) increase the number of individuals who qualify for AFDC.

- ***San Mateo County Health System ($4.2 Million General Fund).*** The budget assumes that the San Mateo County health system will commence operations in August of 1987. The costs proposed for 1987–88 would cover the "pipeline" and "start-up" costs of the new system.
- ***Intermediate Care Facilities for the Developmentally Disabled—Habilitative ($1.3 Million General Fund).*** The budget proposes augmenting the rate currently paid to intermediate care facilities for the developmentally disabled—habilitative. The augmentation is intended to cover the costs of additional supervisorial staff in these facilities.

"Program Restructuring"

The *Governor's Budget Summary* calls for the Legislature to work with the administration to formulate long-term reforms in the Medi-Cal program "to permit the state to provide necessary medical benefits to the needy while containing program costs at a level which is 5 to 10 percent less than current trends would indicate." The budget anticipates a $125 million General Fund savings resulting from this restructuring effort. Neither the budget itself nor any of the supporting documentation submitted with it provide any specific proposals for program restructuring.

The proposed program restructuring would account for a 4.9 percent reduction, compared to baseline expenditures, in the first year of implementation. The long-term effect of the restructuring is likely to be substantially greater, however, since the proposed $125 million General Fund reduction would translate into an ongoing reduction of at least $150 to $200 million, depending on the precise nature and timing of the changes that would make up the restructuring. This is because Medi-Cal payment lags would reduce the effect of any reform during the first fiscal year it takes effect.

In a separate report entitled "The Medi-Cal Program in Perspective" (report 87-6) we examine Medi-Cal expenditure trends to determine where the program stands relative to other state Medicaid programs, General Fund expenditures as a whole, the state appropriations limit, and private health insurance costs and covered benefits. The report also identifies major options for reducing Medi-Cal costs.

The report concludes that:

- The program's costs are less than the costs of Medicaid programs in other states.
- The major differences between benefits provided by Medi-Cal and private insurance are inherent in the basic differences between the purpose of Medi-Cal and the purpose of private insurance.
- Medi-Cal costs are growing at a rate lower than inflation in the health care industry as a whole.
- The program has reduced its share of the General Fund budget in recent years, and has been growing at a rate lower than the rate of growth in the state's appropriations limit.
- The growth in program costs that has occurred since the enactment of the last major Medi-Cal reforms in 1982 has been due primarily to explicit decisions by the Legislature and the Governor.

The report also notes that the AIDS epidemic, the federal Immigration

DEPARTMENT OF HEALTH SERVICES—Continued

Reform and Control Act, and the aging of the state's population could have serious implications for Medi-Cal's future costs, but that there is too much uncertainty surrounding these recent developments to warrant basing a major reform solely on their potential effects.

Finally, the report recognizes the possibility that the Legislature may want to implement a major reform of the Medi-Cal program for reasons having little to do with the Medi-Cal program itself. In other words, the Legislature may choose to reduce the General Fund commitment to Medi-Cal in response to the state's overall fiscal condition and as a way of funding the Legislature's priorities in other program areas. In order to accommodate a Medi-Cal savings of the magnitude proposed in the budget, the Legislature probably would have to (1) eliminate some benefits or eligibility categories that are optional under federal law (the annual General Fund costs of federally optional *benefits* is approximately $500 million while the costs of services to individuals in optional *eligibility* categories totals $660 million annually), (2) pursue various cost avoidance and recovery enhancements, (3) implement changes in purchasing practices, (4) improve utilization review, and/or (5) develop alternatives to long-term care.

Cost Avoidance, Recoveries, and Utilization Review Proposals

Cost Avoidance and Recovery Enhancements Proposed in the Budget

The budget proposes Medi-Cal savings totaling $57.2 million ($28.7 million General Fund) as a result of cost avoidance and recovery enhancement initiatives. This is $48.9 million ($24.5 million) above savings assumed in the current year. The annual savings resulting from these initiatives would be $74.4 million ($37.2 million General Fund) beginning in 1988–89.

The initiatives proposed in the budget are as follows:

1. ***Patterns-of-Treatment Utilization Review—$50 Million ($25 Million General Fund) in 1987–88 and Annually Thereafter.*** Under this proposal, the Medi-Cal fiscal intermediary will make automated comparisons of services rendered to Medi-Cal beneficiaries with accepted patterns of treatment. When the fiscal intermediary identifies inappropriate treatment, it will deny payment to providers. The patterns of treatment used by the fiscal intermediary will first be reviewed by the department's medical staff to ensure that they reflect an appropriate medical interpretation of existing program regulations. While our review indicates that the department's estimate of the savings that can be achieved through this proposal is preliminary and therefore subject to a substantial amount of error, we agree with the department that the proposal *could* result in substantial savings. The department advises that a more reliable estimate of savings should be available at the time of the May revision.

2. ***Termination of California Medical Review, Incorporated (CMRI) Contract—$3.1 Million ($1.6 Million General Fund) in 1987–88 and $4.7 Million ($2.3 Million General Fund) Annually Thereafter.*** The budget proposes to terminate the contract with CMRI to perform utilization reviews of acute hospital admissions in three areas of the state. The department states that turning over this utilization review to Medi-Cal field office staff will result in an increase in the number of treatment authorization requests denied.

3. ***Probate Recovery Enhancements—$1.5 Million ($700,000 General Fund) in 1987–88 and $6 Million ($3 Million General Fund) Annually Thereafter.*** The budget proposes to increase the number of cases in

which the Medi-Cal program recovers costs from the estates of deceased beneficiaries. This increase in probate cases would be accomplished primarily through a variety of improvements in the way that private attorneys and public guardians are advised of their obligation to notify the state of probate actions involving former Medi-Cal beneficiaries.

4. ***Cost Avoidance Enhancements—$2 Million ($1 Million General Fund) in 1987–88 and $7.2 Million ($3.6 Million General Fund) Annually Thereafter.*** The budget proposes to continue the department's efforts to improve its cost avoidance program. Currently, the department identifies Medi-Cal beneficiaries who are covered by non-Medi-Cal health maintenance organizations (HMOs) and reflects this fact on their Medi-Cal cards. This practice avoids Medi-Cal costs by ensuring that Medi-Cal providers refer these beneficiaries to their HMOs for any service covered by the HMO. Under the proposed second phase of the cost avoidance program, the department will begin identifying those Medi-Cal beneficiaries who have health insurance other than through an HMO. The department is currently considering implementing this enhancement earlier in the budget year than the start-up date upon which its savings estimate was based. The earlier start-up, if it proves feasible, would approximately double the savings that could be achieved in 1987–88.

5. ***Mini On-Site Reviews—$400,000 ($200,000 General Fund) in 1987–88 and $3.2 Million ($1.6 Million General Fund) Annually Thereafter.*** The budget proposes to increase the department's auditing of Medi-Cal providers by adding audit staff who would perform shortened audits. The department advises that the intent of these additional audits is to improve the accuracy of provider billing practices. In our analysis of the Audits and Investigations Division's budget, we withhold recommendation on the funds to add staff for these additional audits pending review of the department's specific plans. We are unable to assess the accuracy of the department's estimate of the savings that would result from the additional audits.

6. ***Medical and Pharmaceutical Policy Reviews—$200,000 ($100,000 General Fund) in 1987–88 and $3.3 Million ($1.5 Million General Fund) Annually Thereafter.*** The budget proposes adding three positions—a pharmaceutical consultant, a medical consultant, and an analyst—to conduct various pharmaceutical and medical policy reviews and updates. The department believes that there are potential major savings that could be accomplished through additional pharmaceutical and medical policy reviews and updates. We discuss these savings in more detail below.

Potential Additional Savings From Policy Reviews and Updates

We recommend that the department report during budget hearings on the potential savings that could result from policy reviews in addition to those proposed in the budget.

The budget proposes three new positions to conduct medical and pharmaceutical policy reviews. Specifically:

- The pharmacist position would be used to conduct the research necessary in order for the department to issue an additional maximum allowable ingredient cost (MAIC) regulation in 1987–88. These regulations specify allowable costs for drug ingredients. The department advises that each new MAIC regulation issued reduces annual Medi-Cal costs by $2.3 million.
- The medical consultant and the analyst positions would be used to (1) establish guidelines for Medi-Cal field office staff to follow in negotiating prices for equipment such as hospital beds, nerve stimulators, and

DEPARTMENT OF HEALTH SERVICES—Continued

oxygen concentration machines to Medi-Cal beneficiaries and (2) develop regulations to require certain state-of-the-art oxygen use techniques for Medi-Cal beneficiaries who use oxygen. The department advises that the use of negotiated prices for the equipment would save $257,000 annually. Also, according to the department, the new techniques for using oxygen would reduce oxygen use by 30 percent, thereby saving $840,000 annually.

Our review of the documents submitted by the department in justification of the proposed three positions indicates that the department believes that there are several opportunities, in addition to the three proposed in the budget, for major savings that could be achieved through pharmaceutical and medical policy reviews and updates. Specifically, the department has identified the following areas as likely candidates for policy review:

- ***Negotiated Pricing*** of hearing aids, oxygen, wheelchairs, and other medical supplies.
- ***Billing Practices*** of anesthesiologists.
- ***Technological Advances in Wheelchair Design.***
- ***Patient Selection for Heart Bypass Surgery.***
- ***Analysis of High-Cost Services.***
- ***Preventive Medicine.***
- ***Criteria for Using Vitamin Supplements in Nursing Homes.***
- ***Additional MAIC Regulations.***
- ***Revision of the Estimated Acquisition Cost (EAC) Program*** used in drug ingredient rate setting.

The budget does not include funds to implement any of the above policy reviews. According to the department, existing staff does not have time to conduct these reviews, and the new staff requested in the budget will be fully occupied with the policy reviews that are proposed in the budget. At the same time that the administration is calling on the Legislature to help it identify program changes that will reduce Medi-Cal costs by $125 million in 1987–88, it has not chosen to propose additional policy reviews despite their savings potential. We are unable to advise the Legislature regarding the likelihood of the savings level that could be achieved through these reviews. We therefore recommend that the department report to the fiscal committees at the time of budget hearings on the potential savings that could result from policy reviews in the areas mentioned above.

Potential Savings That Could Result From the New Fiscal Intermediary Contract

We recommend that the department report during budget hearings on the savings it anticipates will be achieved in the long run as a result of the upcoming reprocurement of the Medi-Cal fiscal intermediary contract.

The department contracts with a fiscal intermediary to process fee-for-service Medi-Cal claims. The current contract will expire in March 1988. The department issued a request for proposals (RFP) in February 1987. The RFP invites bidders to include an estimate of the program savings they estimate can be achieved through innovative uses of the fee-for-service data base and the claims processing system. The contractor selection process will include some consideration of each bidder's proposed savings options. Bidders will not receive credit for savings proposals that the department finds to be unrealistic, overestimated, or harmful to beneficiaries of the program. The RFP limits the proposed annual savings that the department will take into account in awarding the contract to $50 million ($25 million General Fund).

The department advises that, in its judgment, the bidders will have no trouble in identifying savings of this magnitude that can be achieved without eliminating any benefits or eligibility categories. The patterns-of-treatment utilization review program proposed in the budget is an example of the kind of cost savings feature the department anticipates that it will receive in response to the RFP. The utilization review program was, in fact, suggested by the incumbent contractor.

Given the magnitude of the ongoing savings that could be achieved under the new contract, the Legislature may want to take these savings into account as it considers the administration's request to reduce General Fund Medi-Cal expenditures by $125 million in 1987–88. We therefore recommend that the department report to the fiscal committees at the time of budget hearings on the savings it anticipates will be achieved in the long run as a result of the upcoming reprocurement of the Medi-Cal fiscal intermediary contract.

Technical Budget Issues

We recommend a reduction of $12,496,000 ($6,301,000 General Fund) to correct for (1) overbudgeting of the costs of the Los Angeles County Community Health Plan ($6,393,000—$3,250,000 General Fund) and (2) underbudgeting of the savings that result from the identification by the Social Security Administration of Medi-Cal beneficiaries with private insurance coverage ($6,103,000—$3,051,000 General Fund). (Reduce Item 4260-101-001 by $6,301,000 and Item 4260-101-890 by $6,195,000.)

The budget includes savings of (1) $13,830,000 ($7,032,500 General Fund) for the costs of the Los Angeles County Community Health Plan and (2) $8,389,000 ($4,194,000 General Fund) due to the identification by the federal Social Security Administration of Medi-Cal beneficiaries who are covered by private health insurance. Our review indicates that:

- The department's estimate of the costs of the Los Angeles County Community Health Plan are based on out-of-date assumptions regarding the number of beneficiaries that will be enrolled in the plan. If recent enrollment data are taken into account, the department's estimate of the costs of the plan in 1987–88 is reduced by $6,393,000 ($3,250,000 General Fund).
- The department's estimate of the savings associated with identifying Medi-Cal beneficiaries who have private health coverage is based on an assumption that the Medi-Cal program saves an average of $65.57 per month for each of the individuals identified by the project. A more realistic estimate of the monthly savings for each of these individuals would be $115. If the department's estimate is changed to reflect the more realistic estimate of the savings rate, the estimated savings associated with the project is increased by $6,103,000 ($3,051,000 General Fund).

We therefore recommend a reduction of $12,496,000 ($6,301,000 General Fund) to correct for (1) overbudgeting of the costs of the Los Angeles County Community Health Plan and (2) underbudgeting of the savings that result from the identification by the Social Security Administration of Medi-Cal beneficiaries with private insurance coverage.

Limitation on Expenditures

We recommend that the Legislature adopt Budget Bill language included in the 1986 Budget Act (1) prohibiting expenditures in excess of 3 percent of the amount appropriated in any expenditure category and (2) requiring legislative notification before augmentations are approved for any service category.

The 1987 Budget Bill includes funds for all Medi-Cal local assistance categories in a single budget item. As a result, funds can be transferred among the amounts appropriated for (1) health care benefits, (2) county administration, and (3) claims processing, so long as total expenditures do not exceed the total local assistance appropriation. Since 1982 when the local assistance amounts were first combined into one item, the Legislature has added language to each Budget Bill designed to ensure that the Legislature is notified of all augmentations to any of the three local assistance categories and that these augmentations do not exceed 3 percent of the amount appropriated by the Legislature for that category.

Without this limitation, the Legislature would not have accurate information on the costs of particular services, because the department would have the authority to make unlimited shifts of funds between Medi-Cal local assistance program categories. For example, the administration could transfer unlimited amounts from the legislative appropriation for Medi-Cal health care services to support funding increases for county administration or claims processing.

The 1987 Budget Bill does not contain the language added by the Legislature in earlier years. To ensure that unlimited transfers do not occur, we recommend that language be added to the 1987 Budget Bill prohibiting augmentations in excess of 3 percent and requiring that the Legislature be notified of other augmentations. Specifically, we recommend that the Legislature adopt the following language, which is identical to language contained in the 1986 Budget Act.

> "The transfer of amounts from one category in this item to another category shall not exceed 3 percent of the amount scheduled for the receiving category. No augmentation of amounts available for expenditure in any category shall be made sooner than 30 days after notification in writing of the necessity therefor to the chairperson of the committee in each house which considers appropriations and the Chairperson of the Joint Legislative Budget Committee, or not sooner than such lesser time as the chairperson of the committee, or his or her designee, may in such instance determine."

Legislative Notification of Changes in Rules or Regulations

We recommend the adoption of Budget Bill language requiring the department to notify the Legislature of any rule change expected to cost $1 million or more.

The 1987 Budget Bill does not include language that was placed in the 1986 Budget Act by the Legislature as a means of assuring legislative oversight of proposed expenditure changes. The 1986 Budget Act requires the Department of Finance to notify the Joint Legislative Budget Committee of any change in Medi-Cal rules or regulations that is expected to result in annual General Fund costs or savings of $1 million or more.

It is important that the Legislature receive notification of regulations or rule changes expected to result in significant increases or decreases in Medi-Cal expenditures, in order to (1) assure that legislatively authorized program services are being provided and (2) monitor General Fund costs. Therefore, we recommend that the Legislature adopt the following language:

"When a date for public hearing has been established for a change in any program, rule, or regulation, or the Department of Finance has approved any communication revising any department program, the two fiscal committees and the Joint Legislative Budget Committee shall be notified if the annual General Fund cost of the proposed change is $1 million or more."

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.

B. COUNTY ADMINISTRATION

The budget proposes $148.3 million ($71.5 million General Fund, $76.8 million federal funds) for county welfare departments to determine Medi-Cal eligibility for medically needy beneficiaries. The costs of eligibility determinations for categorically eligible beneficiaries (AFDC and SSI/SSP cash grant recipients) are covered by the AFDC and SSI/SSP programs.

The budget anticipates that General Fund Medi-Cal eligibility determination costs in the current year will be $1.9 million, or 2.9 percent, higher than the amount appropriated in the 1986 Budget Act. As Table 27 shows, the deficiency is primarily due to (1) a projected 2 percent caseload increase, (2) the costs of complying with court orders, and (3) the increased costs of the Income and Eligibility Verification System (IEVS) pilot project.

The proposed $71.5 million General Fund appropriation for county administration represents an increase of $8.9 million, or 14 percent, over estimated 1986–87 expenditures. As Table 27 shows, the increase is due primarily to (1) the elimination of Provision 1 funds that are not expected to be available in 1987–88 (these are funds received from counties due to "excess denial rates"), (2) the costs of continuing the development of the

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Table 27
Medi-Cal County Administration
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
Funds available, 1986 Budget Act		
1. Eligibility item	$60,697	$129,451
2. Federal refugee reimbursements	—	375
3. Provision 1 funds	—	2,500
Subtotals, 1986–87 expenditures (Budget Act)	$60,697	$132,326
Unanticipated 1986–87 changes		
1. Increased caseloads	1,273	2,539
2. Reduced costs of the cost-avoidance project	−24	−448
3. Increased costs of the Income Eligibility Verification System (IEVS) pilot project	219	439
4. Court orders	372	723
5. Increased reimbursements for refugees	−130	—
6. Restoration of dual choice in San Diego County	103	206
7. Other changes	47	12
1986–87 expenditures (estimated)	$62,557	$135,797
Projected deficiency	−$1,860	−$3,471
1986–87 proposed changes		
1. Elimination of Provision 1 funds	2,500	—
2. Elimination of one-time costs for court orders	−372	−723
3. Increased savings, San Diego County automated intake	−80	−160
4. Statewide Automated Welfare System (SAWS) development costs	1,036	2,072
5. Retroactive cost-of-living adjustment (4.78 percent)	1,956	3,911
6. Elimination of IEVS pilot project	−362	−824
7. First year of statewide phase-in of IEVS	3,699	7,398
8. Postpartum coverage	152	304
9. Out-of-state foster children	−13	−25
10. Early Periodic Screening Diagnosis and Treatment program caseload increase	82	−179
11. California Children's Services caseload increase	346	786
12. Other changes	−32	−12
1987–88 expenditures (proposed)	$71,469	$148,345
Change from 1986–87 (estimated)		
Amount	$8,912	$12,548
Percent	14.2%	9.2%

Statewide Automated Welfare System (SAWS), (3) the 1987–88 costs of cost-of-living adjustments (COLAs) granted by county welfare departments to their employees in 1986–87 (the average COLA is estimated at 4.78 percent), (4) the costs of the first year of operating IEVS, and (5) increased costs of CCS case management due to an estimated increase in CCS users.

Income Eligibility Verification System

The budget proposes $7,398,000 ($3,699,000 General Fund) for the Medi-Cal program's share of the costs of the first year of a planned 15-month phase-in of the Income Eligibility Verification System (IEVS). According to documentation submitted in support of the budget, the statewide costs of the system to the Medi-Cal program will total $16,451,-800 ($8,224,000 General Fund) annually once the system is fully phased-in.

Background

Federal Requirements. The Deficit Reduction Act of 1984 required states to implement a system for electronically matching the names of Medicaid, AFDC, and Food Stamps recipients and applicants against various data bases in order to detect fraud and to verify eligibility for benefits under the programs. The various federal agencies that administer these programs issued final regulations on IEVS on February 28, 1986. The regulations contain detailed requirements regarding the implementation of the system and required states to fully implement the system by October 1, 1986. The regulations also provided that failure to implement IEVS on time would constitute grounds for fiscal sanctions in all three federal programs, and declared that no state would be granted a postponement of the deadline for implementation.

In response to these regulations, the Departments of Health Services and Social Services drafted an implementation plan in the spring of 1986. The departments requested, and received, augmentations to their budgets totaling $1,995,000 ($849,000 General Fund) to cover the 1986–87 costs of developing and testing IEVS in California. The implementation plan calls for development and pilot testing to be complete by July 1987 and for the system to be fully operational statewide by September 1988—two years after the federally imposed deadline.

IEVS and Existing Fraud Detection Systems. California currently operates a variety of computerized fraud detection and eligibility verification systems. Specifically, the state, in cooperation with the county welfare departments, operates systems that match AFDC and Food Stamps recipients against various computer files maintained by the state and federal governments containing data on employment income, financial assets, and government benefits (Social Security, SSI/SSP, railroad retirement, etc.) IEVS would expand the existing systems in the following three major ways:

- It would add the names of *medically needy* Medi-Cal beneficiaries to the files to be matched against the various income, assets, and benefits files. Existing fraud detection systems cover only those Medi-Cal beneficiaries who are also AFDC recipients.
- It would add *applicants* for all three programs to the files to be matched. Existing computerized fraud detection systems are limited to individuals who are already receiving aid.
- It would, for the first time, *require counties to follow up* on the information they receive from computerized fraud detection systems. Currently, counties have the option to investigate or not investigate any case where the computer indicates that a recipient does, in fact, have income, assets, or other benefits.

Costs of the Proposed New System. The $7.4 million proposed for IEVS in the Medi-Cal budget would go mostly to pay for the costs of eligibility worker follow-up. (We discuss the $22 million ($5.2 million General Fund) proposed for IEVS implementation in the AFDC and Food Stamps programs in our analysis of Item 5180-141, County Administration of Welfare Programs.)

The budget assumes that county welfare department eligibility workers will need (1) 15 minutes to locate and open the case file of each beneficiary whose name matches a name on one or more of the income, assets, and benefits files and determine whether the individual appropriately reported the income, asset, or benefit to the Medi-Cal caseworker, (2) 5 minutes

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to enter data generated by IEVS in the case files of one-half of the new applicants for which IEVS generates a match, and (3) an additional hour to more closely investigate the estimated 40 percent of the cases in which further documentation is needed or an inconsistency exists between beneficiary-reported income, assets, and benefits and those identified by IEVS. The department advises that the costs to purchase hardware and develop the computer programs needed to implement IEVS will be covered in the current year and that there will be very little, if any, new development costs required to operate the system in 1987–88.

Costs of IEVS Likely to Outweigh Benefits

A well designed fraud detection system should identify enough fraud to generate savings at least adequate to defray the costs of operating the system. In fact, our experience with welfare fraud detection programs indicates that it is possible to design systems capable of paying for themselves many times over. Our review of the department's proposed system design, however, indicates that the Medi-Cal portion of IEVS, as envisioned in the budget, may cost much more to operate than it will save in terms of reduced Medi-Cal costs. We reach this conclusion based on our identification of four major defects in the department's proposal.

1. ***The system design calls for follow-up of 100 percent of the cases*** that match a name on one or more of the income, asset, or benefit files. Experience with welfare fraud detection systems indicates that the great majority of matches are benign: that is, the recipient has correctly reported the computer-identified income, or the amounts involved are trivial and not relevant to the person's eligibility or grant level. It is therefore important to focus on those matches that are most likely to result in detection of fraud. The department's proposal does not propose a mechanism for focusing the follow-up on those cases in which it is most likely to produce savings.

2. ***The proposal assumes that all follow-up will have to be done manually*** by eligibility workers. Most of the state's major counties have some degree of case-file automation. Most of the existing computer systems, therefore, contain much of the information that would be needed to identify which cases warrant further follow-up and investigation by a worker and which do not. The department's proposal, however, does not address the possibility of automating some portion of the follow-up. We identified this problem last spring in our analysis of the pilot project. The department has not taken this into consideration in developing its plan. Automation of only half of the follow-up activities would save $6.3 million annually once IEVS is fully operational statewide.

3. ***The proposed screening of applicants is not likely to generate significant savings.*** This is because the data available on earned income are at least four to six months late. The data, which are maintained by the Employment Development Department, are not accessible until at least three months after the end of the quarter to which the records apply. Moreover, the data that are available on financial assets are more than one year old. Since the income and assets of a Medi-Cal applicant in any month prior to the month of application is not relevant to the applicant's eligibility, it is difficult to see how the data could be used to detect fraud. The applicant component *could* generate some savings through other matches (for example the match against Social Security files), but it is questionable whether these savings would be adequate to offset the costs of the entire applicant screening.

4. *The budget does not include an estimate of the savings* that IEVS will generate, either in 1987–88 or in subsequent years. Typically, when the department proposes a major initiative to reduce Medi-Cal costs, the budget reflects the department's savings estimate. The department's failure to include a savings estimate in the budget casts doubt on the department's own confidence that the program will, in fact, generate savings adequate to defray its costs. The absence of a savings estimate also makes it difficult for the Legislature to evaluate the proposal from a benefit/cost perspective or to establish a benchmark for use in judging the performance of IEVS once it begins operation.

A Scaled-Back Version of the Department's Proposal Could Increase the Likelihood that IEVS Will Be Cost-Effective

We recommend a reduction of $3,699,000 ($1,850,000 General Fund) consistent with a 50 percent reduction in the amount of eligibility worker time budgeted to follow up referrals under the IEVS. We also recommend Budget Bill language requiring the department to (1) test a variety of follow-up thresholds in 1987–88, (2) ensure that counties use automated follow-up to the maximum extent possible, and (3) report to the Legislature by December 15, 1987 on its estimate of the savings that will be generated by IEVS.

We cannot recommend approval of full implementation of IEVS because our analysis concludes that the system proposed in the budget may cost much more than it will save. We recognize, however, that the federal government requires the state to implement IEVS. In order to minimize the chance that the federal government will impose fiscal sanctions on the state, and to improve the chance that the system will be cost-effective, we recommend that the Legislature adopt a scaled-back version of the department's IEVS proposal. Specifically, we recommend that the Legislature:

1. Reduce the proposed funding for the system in 1987–88 by one-half. Since nearly all of the $7.4 million requested for the first year of IEVS operation is for eligibility worker follow-up, this would require the department to eliminate roughly one-half of the eligibility worker time budgeted. This could easily be accomplished through the use of automated follow-up and follow-up thresholds. Follow-up thresholds would consist of minimum dollar amounts of computer-identified income, assets, or benefits that would be subject to follow-up. By establishing such thresholds, the department could control the amount of eligibility worker time needed to follow up on IEVS matches and thereby keep the costs of IEVS within the amount budgeted.

2. Require the department to gather the data necessary to identify the appropriate thresholds for each of the types of income, assets, and benefits. We recognize that the thresholds the department would have to set for use in 1987–88 in order to keep the costs of IEVS within the reduced amounts we are recommending would initially have to be arbitrary. The department currently does not have any data that would allow it to determine the thresholds that yield the best combination of fraud detection and cost minimization. We believe, however, that the department could take advantage of the first year of its planned IEVS phase-in to test various thresholds so that, by the time the system is fully operational statewide, it can implement the appropriate thresholds.

3. Require the department to develop an estimate of the savings that will be generated by IEVS. It should be possible for the department to

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develop at least a preliminary estimate of the savings that will be generated by IEVS after a few months of program operation. The department should, therefore, be able to provide a savings estimate in time for the Legislature's use in evaluating the funds requested for IEVS in the 1988–89 budget.

For these reasons, we recommend a reduction of $3,699,000 ($1,850,000 General Fund) consistent with a 50 percent reduction in the amount of eligibility worker time proposed for follow-up under IEVS. We also recommend the adoption of the following Budget Bill language requiring the DHS to (1) test a variety of follow-up thresholds during 1987–88, (2) ensure that counties use automated follow-up to the maximum extent possible, and (3) report to the Legislature by December 15, 1987 on its estimate of the savings that will be generated by IEVS:

> "The department shall test a variety of follow-up thresholds under the IEVS program in order to determine the amount of follow-up that is needed to ensure that the program generates savings in excess of its operating costs. The department shall also take appropriate action to ensure that counties use automated follow-up to the maximum possible extent. The department shall report to the Legislature by December 15, 1987 on its estimate of the savings that will be generated by IEVS."

It is important to note that our recommendation *does not* hamper the department in its effort to comply with federal regulations regarding IEVS. The funding reduction we are recommending is not intended to delay the implementation schedule already established by the department. Instead, it is designed to ensure that whenever a county implements IEVS, it will do so in as cost-effective a manner as possible. This is not to say, however, that we believe the department can avoid federal sanctions. Under both the department's proposal for IEVS and our recommended scaled-back system, the state will be two years late in complying with the federal IEVS requirements. Thus, it is quite possible that the state will be sanctioned regardless of the funding level provided in the final 1987–88 budget.

Costs of Retroactive Cost-of-Living Adjustment Overbudgeted

We recommend a reduction of $965,000 ($483,000 General Fund) to reflect the costs of a 3.6 percent retroactive cost-of-living adjustment (COLA), rather than the 4.78 percent used in the department's estimate of these costs.

The budget proposes $3,911,000 ($1,956,000 General Fund) for the 1987–88 costs of cost-of-living adjustments (COLAs) granted by county welfare departments to their employees during 1986–87. The proposal is consistent with the state's policy in recent years of paying the state's 50 percent share of these costs beginning with the year following the year in which the COLAs are granted. The budget request assumes that counties granted COLAs averaging 4.78 percent in 1986–87. The department advises that it based this assumption on a preliminary estimate of the COLAs granted by counties, which was prepared by the Department of Social Services (DSS).

The DSS also funds COLAs for county welfare department employees on a retroactive basis. The DSS budget for retroactive COLAs is based, however, on DSS' most recent estimate of the COLAs—3.6 percent. The Medi-Cal budget should be adjusted to reflect DSS' most recent estimate. We therefore recommend a reduction of $965,000 ($483,000 General

Fund) to reflect the costs of a 3.6 percent retroactive COLA, rather than the 4.78 percent used in the department's estimate of these costs.

Cost Control Study Could Affect Costs in 1987–88

We withhold recommendation on $26,527,000 proposed from the General Fund for that portion of the costs of eligibility worker salaries and benefits that is tied directly to the state's productivity targets, pending receipt of the departments' final implementation plan for establishing productivity targets.

The 1986 Budget Act requires the Departments of Health Services and Social Services to conduct a study of the current county administration cost control plan. This plan establishes the productivity targets used to budget and allocate funds to counties for administration of the Medi-Cal, AFDC, and Food Stamps programs. Under the current plan, the state's share of the costs of administering these programs is limited to the state's percentage share of only those county costs that are consistent with these productivity targets. The plan establishes the targets based on the average level of productivity of the counties' eligibility workers in a specified base year. The base years used to set the targets are 1984–85 for Medi-Cal and 1980–81 for AFDC and Food Stamps.

The 1986 Budget Act requires the departments to submit to the Legislature by May 1, 1987 a final implementation plan for a new method of establishing productivity targets. The departments are currently working with the County Welfare Directors Association (CWDA) to (1) study the current system and identify any needed improvements and (2) prepare the required implementation plan.

The outcome of the study could have significant implications for the costs of county administration of the three programs in 1987–88. This is because the Budget Act states the Legislature's intent to either (1) authorize the departments to implement their plan if it is acceptable to the CWDA, (2) consider any alternative plan submitted by the CWDA in the event that the CWDA does not agree to the departments' plan, or (3) consider updating the base year used to establish targets for 1987–88 to the most recent year for which data are available. The targets that are established for 1987–88 would vary dramatically depending on which of these options the Legislature adopts.

Of the $71.5 million from the General Fund proposed for county administration of the Medi-Cal program in 1987–88, $26,527,000 is directly related to the productivity targets (this amount reflects the cost of the salaries and benefits of that portion of the counties' workforce that is budgeted based on the targets). We therefore withhold recommendation on $26,527,000 from the General Fund proposed for eligibility worker salaries and benefits pending receipt of the departments' final implementation plan.

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

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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 Delta Dental, by the health system itself.

Proposed Program Changes

The budget request for claims processing is $7 million ($2.2 million General Fund) less than estimated 1986–87 costs. Table 28 displays the proposed changes that result in this reduction. As the table shows, the reduction is primarily due to (1) the elimination of one-time costs for a settlement with CSC that occurred in 1986–87 ($6 million—$1.5 million General Fund), (2) the scheduled reduction in the monthly contract price for dental claims processing ($1.8 million—$900,000 General Fund), and (3) the costs for CSC to turn over the fiscal intermediary operation to a new contractor ($1.3 million—$300,000 General Fund).

Table 28

Medi-Cal Claims Processing
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
Funds available, 1986 Budget Act		
1. Fiscal intermediary item	$13,289	$43,609
2. Refugee reimbursements	—	77
Subtotals	$13,289	$43,686
Unanticipated 1986–87 expenditures		
1. Computer Sciences Corporation contract		
a. Sales tax	−405	−128
b. Other adjustments	177	261
2. Medicare crossover contracts	90	361
3. State Controller agreement	43	170
4. Delta Dental contract	168	335
5. Increased refugee reimbursement	−50	—
1986–87 expenditures (estimated)	$13,312	$44,685
Projected deficiency	23	999
1987–88 proposed changes		
1. Computer Sciences Corporation contract		
a. Sales tax	−86	−334
b. Turnover	325	1,292
c. Elimination of one-time costs	−1,511	−6,000
d. Other adjustments	−324	−1,246
2. Medicare crossover contracts	37	148
3. State Controller agreement	16	67
4. Delta Dental contract	−917	−1,819
5. Child Health and Disability Prevention claims processing	288	885
6. Reduced refugee reimbursement	7	—
1987–88 expenditures (proposed)	$11,147	$37,678
Change from 1986–87 (estimated)		
Amount	−$2,165	−$7,007
Percent	−16.3%	−15.7%

Costs of New Medi-Cal Fiscal Intermediary Contract Not Budgeted

The current fiscal intermediary contract with CSC expires in March 1988. The department anticipates awarding a new contract in July 1987. The request for proposals (RFP) calls for the successful bidder to begin processing Medi-Cal claims under the new contract in April 1988. The RFP allows bidders to include up front "takeover" costs, subject to various limitations, in their bids. The amount of the takeover costs that will be included in the winning bid is, of course, unknown. If the rules established by the current RFP are applied to the low bid submitted by CSC when it won the current contract, however, the takeover costs would have been up to $2.2 million ($500,000 General Fund). The budget does not include funds to cover these costs. Therefore, it is likely that the department will have to request authority to incur a deficiency for these costs in 1987–88.

D. MEDI-CAL STATE ADMINISTRATION

The budget proposes $118 million ($42.9 million General Fund) in various departments for state administration of the Medi-Cal program in 1987–88. The General Fund amount represents an increase of $1.1 million, or 2.7 percent, above estimated expenditures in 1986–87. Table 29 displays Medi-Cal state administrative expenditures in 1986–87 and 1987–88.

Table 29
Medi-Cal Program
State Administration Expenditures [a]
1986–87 and 1987–88
(dollars in thousands)

	Estimated 1986–87		*Proposed 1987–88*		*Percent Change in*
	General Fund	*All Funds*	*General Fund*	*All Funds*	*General Fund*
Department of Health Services	$33,505	$95,787	$34,343	$97,110	2.5%
Department of Social Services	4,631	12,659	5,032	13,928	8.7
Department of Mental Health	790	1,984	790	1,984	—
California Medical Assistance Commission	887	1,774	894	1,798	0.8
Department of Aging	2,004	3,318	1,890	3,157	−5.7
Totals	$41,817	$115,522	$42,949	$117,977	2.7%

[a] 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 budget proposes to increase General Fund spending by the Department of Health Services by $838,000, or 2.5 percent, above estimated spending levels in the current year. This increase primarily reflects (1) a proposed increase in field office staff due to increased treatment authorization review (TAR) workload, (2) a proposed increase in auditors to conduct a mini on-site review program, and (3) a proposed increase in Recoveries Branch staff to accomplish increased recoveries.

The budget proposes 1,482.4 positions in the Department of Health Services that can be attributed directly to the administration of the Medi-Cal program. This is 90.3 positions, or 6.5 percent, more than the number of authorized positions in 1986–87. The increase reflects the expiration of 10.8 limited-term positions and an increase of 101.1 permanent positions.

Table 30 shows the changes in Medi-Cal-related positions proposed for the budget year. It does not reflect positions in the department's administrative units (personnel, budgets, accounting, etc.) whose costs are distributed to the Medi-Cal program for funding purposes.

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Table 30
Medi-Cal Program
Proposed Positions in the
Department of Health Services [a]
1987–88

Program	*Existing Positions*	*Limited-Term Positions*	*Proposed Changes*	*Proposed Positions*	*Percent Change*
Eligibility	68.5	−8.5	—	60.0	−12.4%
Benefits	37.8	—	3.0	40.8	7.9
Rate development	38.1	—	2.0	40.1	5.2
Contract operations	48.0	—	7.0	55.0	14.6
Utilization control	414.9	—	70.1	485.0	16.9
Health recovery	217.8	—	5.0	222.8	2.3
Fiscal intermediary [b]	122.4	—	—	122.4	—
Program development	21.1	—	—	21.1	—
Medi-Cal reprocurement project	17.0	—	—	17.0	—
Audits and investigations [b,c]	406.5	−2.3	14.0	418.2	2.9
Totals	1,392.1	−10.8	101.1	1,482.4	6.5%

[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] Includes divisional offices.
[c] This includes the 92 percent of the positions in the Audits and Investigations Division attributable to Medi-Cal program activities.

Technical Adjustment to Field Office Staffing Request

We recommend a reduction of $119,000 ($41,000 General Fund) and 1.5 of the 33.6 new positions requested for field offices because they are not justified by staffing standards. (Reduce Item 4260-001-001 by $41,000 and Item 4260-001-890 by $78,000.)

The budget proposes the addition of 33.6 new positions to meet expanded workload requirements due to increases in the number of treatment authorization requests (TARs) that must be reviewed by the field offices. The department developed its staffing request using standards published by the Department of Finance in March 1985.

We identified two problems with the department's proposal. First, in the case of one type of TAR, "long-term care off-site," the department used an incorrect standard. Instead of the standard of reviewing 4,426 TARs per nurse evaluator II established by the report, the proposal is based on a review of 3,735 TARs. Correcting this error results in a reduction of staffing needs by 1.5 nurse evaluator II positions.

Second, travel costs and other expenses are based on the positions being filled for the entire year, even though implementation of the proposal is phased in during the first seven months of the budget year.

To correct both of these errors, we recommend that the Legislature delete $119,000 ($41,000 General Fund) and 1.5 of the 33.6 new positions requested for field offices.

Overbudgeted Contracts

We recommend a reduction of $715,000 ($342,000 General Fund) to correct for overbudgeting of funds for contractual services. (Reduce Item 4260-001-001 by $342,000 and Item 4260-001-890 by $373,000.)

The budget includes $654,000 ($327,000 General Fund) for a contract to conduct an open drug formulary pilot project and $60,900 ($15,200 General Fund) for a contract to develop an automated case management system for the Recoveries Branch. Neither of these contracts will be extended in 1987–88 because the federal government has rejected the state's request to conduct an open formulary pilot project, and the case management system is now complete. The department, however, failed to make the necessary adjustments to its budget to reflect that the funds for these contracts are no longer needed. We therefore recommend a reduction of $715,000 ($342,000 General Fund) to correct for overbudgeting of contractual services.

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: (1) financial audits of providers to recoup overpayments or gather data for use in setting rates, (2) utilization reviews of providers and beneficiaries to verify the accuracy of payments and identify overuse of services, (3) investigations of alleged provider or beneficiary fraud, (4) quality-of-care reviews of prepaid Medi-Cal providers, and (5) quality control reviews of the county eligibility determination process. The division also audits contractors under various public health programs.

The budget proposes expenditures of $22,857,000 ($10,333,000 General Fund) for support of the Audits and Investigations Division (including administrative overhead) in 1987–88. This is an increase of $457,000, or 2 percent, above current-year expenditures.

Support for Mini On-Site Review Program Not Provided

We withhold recommendation on $679,000 ($276,000 General Fund) and 18 positions to conduct a mini on-site review program because the department has not provided adequate information in support of the proposal.

The budget proposes expenditures of $679,000 ($276,000 General Fund) and the addition of 18 positions to conduct a mini on-site review program. The budget includes savings of $464,000 ($232,000 General Fund) during 1987–88 in the Medi-Cal local assistance item to reflect a reduction in expenditures expected as a result of implementing this program.

Mini on-site reviews are short (two-day) reviews of providers; they emphasize cost-avoidance rather than recoupment of overpayments. Auditors identify incorrect or abusive billing practices and instruct the provider to make the necessary corrections. Providers that do not make the corrections within six months after the review are (1) placed on a special claims review program, where all of the provider's claims must be reviewed and approved before the provider can be paid and/or (2) given a full (five-day) audit, where overpayments are identified and the department begins the process for recoupment of the overpayment.

In general, the proposal appears to have some merit. At the time this analysis was written, however, the department had provided little information in support of the proposal. For example, the department had not provided justification for the specific number of positions requested, the basis for the projection of savings, or an explanation of the procedure by which providers will be selected for mini on-site reviews or required to have a full audit. Therefore, we withhold recommendation on $679,000 ($276,000 General Fund) and 18 positions proposed for the program.

DEPARTMENT OF HEALTH SERVICES—Continued

Independent Medi-Cal Quality-of-Care Reviews Required

We recommend that the department report to the Legislature during budget hearings on its plans to comply with new federal regulations requiring independent quality-of-care reviews for prepaid health plans that provide Medi-Cal services.

The 1987 federal Omnibus Budget Reconciliation Act (OBRA) requires states to provide for annual *independent* reviews of the quality of care of Medicaid services provided by prepaid health plans (PHPs). A PHP is an organization that provides care under contract with the state on a capitated—per-person, per-month—basis. About 10 percent of Medi-Cal recipients in California receive services through PHPs.

OBRA allows states to contract with peer review organizations (PROs) or private accreditation organizations but prohibits state agencies from conducting the reviews using state staff. The new requirement goes into effect on July 1, 1987. Currently, the state conducts quality-of-care reviews of PHPs using state staff. The budget includes $1,204,000 ($421,000 General Fund) and 19.5 positions to conduct quality-of-care reviews of PHPs in 1987–88. If the state implements the new federal requirement for independent reviews, all or some portion of these funds will have to be redirected to pay for contracts with PROs to perform quality-of-care reviews.

The department advises that it has not yet developed a plan to comply with the new federal requirement. Because the new requirement could have significant implications for the department's budget, we recommend that the department report to the Legislature during budget hearings regarding its plans to comply with the new regulations.

DEPARTMENT OF HEALTH SERVICES—CAPITAL OUTLAY

Item 4260-301 from the General Fund, Special Account for Capital Outlay — Budget p. HW 84

Requested 1987–88	$1,505,000
Recommended approval	197,000
Recommendation pending	1,308,000

ANALYSIS AND RECOMMENDATIONS

The budget requests $1,505,000 from the General Fund, Special Account for Capital Outlay, for one major capital outlay project ($1,308,000) and four minor capital outlay projects ($197,000). Our recommendations are included below.

Major Capital Outlay

Acquisition of Los Angeles Laboratory

We withhold recommendation on $1,308,000 requested under Item 4260-301-036(2) to acquire the Los Angeles Laboratory pending receipt of an environmental assessment and an appraisal.

The budget requests $1,308,000 for acquisition ($1.3 million) and acquisition administrative costs ($8,000) for the leased laboratory building on

Temple Street in Los Angeles. The building was constructed to state specifications in 1968 and is occupied under a lease-with-option-to-purchase agreement. The 20-year term of the lease will expire on June 30, 1988. On that date, the state can acquire the 25,000 assignable square foot facility and associated property at a cost of $1.3 million. Acquisition of the property will allow the laboratory to remain at its existing location.

The DHS indicates that the facility meets the department's needs but contends that approximately $325,000 in modifications *may* have to be made to upgrade the heating, ventilation and air conditioning system ($125,000), improve emergency electrical generation ($100,000), and provide fume hoods for new program activities ($100,000). We have no information to substantiate the department's contention.

The 1986 Budget Act appropriated $10,000 for an appraisal and an environmental assessment at the request of the department and the Department of Finance. The assessment was to be filed and the appraisal completed prior to preparation of the Governor's 1987–88 Budget. At the time of this analysis, the department had not completed either the assessment or the appraisal. The department indicates that this information will be available prior to budget hearings.

Consequently, we withhold recommendation on the requested amount pending receipt of this information.

Table 1
Department of Health Services
1987–88 Minor Capital Outlay Projects
(dollars in thousands)

Project	*Location*	*Budget Bill Amount*	*Analyst's Recommendation*
Install Chemical Storage Container	Berkeley	$32	$32
Renovate Animal Rooms	Berkeley	16	16
Ventilation/Exhaust Air Modifications	Berkeley	61	61
Install Emergency Generator	Fairfield	88	88
Totals		$197	$197

Minor Capital Outlay

We recommend approval.

The budget includes $197,000 for four minor capital outlay projects, as shown in Table 1. Our analysis indicates that all of the projects are justified. Consequently, we recommend approval of the requested amount.

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.

DEPARTMENT OF HEALTH SERVICES—REVERSION

Item 4260-495 to the Hazardous Substance Cleanup Fund — Budget p. HW 35

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the reversion of $13.7 million to the Hazardous Substance Cleanup Fund pending receipt of further information from the department.

This item proposes to revert $13.7 million in funds originally appropriated from the Hazardous Substance Cleanup Fund for site characterization and cleanup costs associated with hazardous waste sites. Items 4260-001-710 and 4260-011-710 in the Budget Bill propose to appropriate these reverted funds for the support of state administrative costs associated with hazardous waste site mitigation.

We have several programmatic concerns regarding this proposal. These concerns are discussed in our analysis of the Toxic Substances Control Division's site mitigation program under Item 4260. In that analysis, we withhold recommendation on all funds proposed for support of administrative costs of the site mitigation program, pending the receipt from the department of overdue reports.

We will make our recommendation to the Legislature on the proposed reversion at the time that we submit our recommendations regarding the budget for site mitigation.

Health and Welfare Agency

CALIFORNIA MEDICAL ASSISTANCE COMMISSION

Item 4270 from the General Fund — Budget p. HW 85

Requested 1987–88	$979,000
Estimated 1986–87	967,000
Actual 1985–86	769,000

Requested increase (excluding amount for salary increases) $12,000 (+1.2 percent)

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4270-001-001—Support	General	$979,000
Reimbursements	Federal	(838,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Long-Term Care Study. Recommend adoption of supplemental report language requiring a report on options for funding long-term care. Further recommend that the commission submit estimates of its costs for preparing the report at budget hearings. 631

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. The commission reports to the Legislature twice each year on the status and cost-effectiveness of selective provider contracts. In addition, the commission's staff conduct special studies of health care issues at the request of the Legislature. The commission is authorized 25.4 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $979,000 from the General Fund for the support of the commission during 1987–88. This is an increase of $12,000, or 1.2 percent, above estimated current-year General Fund expenditures. This increase is due to the net effect of (1) a 10 percent statutory increase in the commissioners' salaries effective December 1, 1986 and (2) a reduction in operating expenses and equipment.

Total expenditures by the commission, including the expenditure of federal funds provided by the Department of Health Services, are proposed at $1,817,000 in 1987–88—an increase of $24,000, or 1.3 percent, above estimated expenditures in the current year.

Table 1 shows personnel-years, expenditures, and funding sources for the commission from 1985–86 through 1987–88.

Table 1
California Medical Assistance Commission
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

Expenditures	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
General Fund	$769	$967	$979	1.2%
Reimbursements (federal funds)	804	826	838	1.5
Totals	$1,573	$1,793	$1,817	1.3%
Personnel-years	23.8	25.4	25.4	—

ANALYSIS AND RECOMMENDATIONS

California Needs to Evaluate Its Options for Financing and Organizing Its Long-Term Care Service Delivery System

We recommend that the Legislature adopt supplemental report language requiring the CMAC to submit a report to the Legislature by September 1, 1988, which analyzes the potential costs, benefits, and impact of several funding options on the service delivery system for long-term care services. We recommend that the CMAC submit estimates of its costs for preparing this report during budget hearings.

In *The 1987–88 Budget: Perspectives and Issues,* we review the funding and organization of the state's long-term care system. As part of that analysis, we recommend that the Legislature adopt supplemental report language requiring the CMAC to study options for funding and organizing

CALIFORNIA MEDICAL ASSISTANCE COMMISSION—Continued

long-term care services.

We recognize that the preparation of as thorough-going and broad-ranging a report as the one we envision in the proposed supplemental report language will very likely require some resources beyond what is included in the commission's proposed budget. We therefore recommend that the commission submit estimates of its costs for preparing the report to the fiscal subcommittees during budget hearings.

Health and Welfare Agency

DEPARTMENT OF DEVELOPMENTAL SERVICES

Item 4300 from the General Fund and Developmental Disabilities Program Development Fund — Budget p. HW 87

Requested 1987–88	$869,322,000
Estimated 1986–87	852,972,000
Actual 1985–86	875,403,000
Requested increase (excluding amount for salary increases) $16,350,000 (+1.9 percent)	
Total recommended reduction	1,115,000
Recommendation pending	850,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4300-001-001—Support	General	$20,200,000
4300-001-172—Support	Developmental Disabilities Program Development	190,000
4300-101-001—Local assistance	General	386,658,000
4300-101-172—Local assistance	Developmental Disabilities Program Development	3,565,000
4300-111-001—Developmental centers	General	65,711,000
Reimbursements		392,998,000
Subtotal		$869,322,000
4300-001-890—Support	Federal	95,000
4300-111-890—Developmental centers	Federal	944,000
Total		$870,361,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Regional Center Caseload. Recommend that when the department updates its budget proposal in May, it use caseload estimates that more closely correspond to historical trends. 639

2. Recommend that the Legislature adopt Budget Bill language requiring that funds available from cost-of-living adjustments for Supplemental Security Income/State Supplementary Program (SS(/SSP) be used to offset General Fund costs for residential care services. 640
3. Residential Care Pilot Project. Recommend that the department include specified information in its report on the pilot project. 640
4. Fire Sprinkler Installation. Recommend that the department submit, prior to budget hearings, additional information regarding the need for fire sprinklers and a plan for limiting funding to those facilities that actually need to install sprinklers. 643
5. ***Foster Care Placements. Reduce Item 4300-101-172 by $200,000.*** Recommend deletion of funds proposed to start up home-finding agencies because these services already exist. 644
6. ***Feasibility Study for a Child Identification and Tracking System. Reduce Item 4300-101-172 by $100,000.*** Recommend deletion of funds proposed to study the feasibility of developing a client registry system because the department has not documented the need for such a system. 644
7. Service Provider Training. Recommend that prior to budget hearings the department submit additional information regarding the number of colleges, instructors, and students the department anticipates will use the materials. 645
8. In-Home Support Demonstration Projects. Recommend that prior to budget hearings the department submit additional information on how the proposed in-home support projects would be administered and evaluated. 645
9. Use of Federal Reimbursements. Recommend that the department report on the likelihood and timing of federal approval of the proposal to fund community placements with federal funds. 646
10. Medically Fragile Infants. Withhold recommendation on the medically fragile infants proposal pending (a) receipt of additional information on the proposed program and target population and (b) resolution of the responsibilities of various agencies involved. 646
11. Developmental Centers Caseload Needs Updating. Recommend that in its May revision, the department (a) update the state developmental center (SDC) population estimates with the latest information, (b) incorporate the Medi-Cal estimate assumed by the Department of Health Services in the Medi-Cal May revision, and (c) correct a technical error resulting in SDC underbudgeting. 649
12. ***Operating Expense Increase. Reduce Item 4300-111-001 by $815,000.*** Recommend that the operating expense increase proposal be reduced by $815,000 to correct for double-budgeting. 650

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

GENERAL PROGRAM STATEMENT

The Department of Developmental Services (DDS) administers services in the community and in developmental centers 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 10,889.6 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 activities are carried out primarily through 21 regional centers, which are operated statewide by private nonprofit corporations under contract with the department.

2. The *Developmental Centers program* provides services in 7 of the state's 11 developmental centers and hospitals. Agnews, Fairview, Lanterman, Porterville, Sonoma, and Stockton state developmental centers (SDCs) operate programs exclusively for the developmentally disabled, while Camarillo State Hospital/Developmental Center operates programs for both the developmentally disabled and the mentally disabled through an interagency agreement with the Department of Mental Health.

Table 1
Department of Developmental Services
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

Expenditures	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Department support	$19,338	$20,399	$21,464	5.2%
Regional centers and community development programs	325,715	369,498	393,293	6.4
Developmental centers	531,285	464,114	455,604	−1.8
Totals	$876,338	$854,011	$870,361	1.9%
Funding sources				
General Fund	*$742,431*	*$446,100*	*$472,569*	*5.9%*
SAFCO	*2,235*	—	—	—
Developmental Disabilities Program Development Fund	*2,959*	*4,200*	*3,755*	*−10.6*
Federal funds	*935*	*1,039*	*1,039*	—
Reimbursements	*127,778*	*402,672*	*392,998*	*−2.4*
Personnel-years				
Department support	390.0	403.6	390.0	−3.4%
Developmental centers	13,109.7	10,486.0	10,125.7	−3.4
Totals	13,499.7	10,889.6	10,515.7	−3.4%

OVERVIEW OF THE BUDGET REQUEST

The budget proposes appropriations of $472.6 million from the General Fund to support DDS programs in 1987–88. This is an increase of $26.5 million, or 5.9 percent, above estimated current-year expenditures. Expenditures from all funding sources are proposed at $870.4 million in the budget year. This is an increase of $16.4 million, or 1.9 percent, above estimated current-year expenditures. Expenditures from state funds are proposed at $869.3 million in the budget year. This is an increase of $16.4 million, or 1.9 percent, above estimated current-year expenditures.

The budget has been reduced by $868,000, which is approximately 1 percent of the General Fund support and developmental center budget, as a "special adjustment." These budget figures and the tables that follow have not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

The increase in expenditures is due primarily to a $25.6 million adjustment for regional center caseload increases.

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

ANALYSIS AND RECOMMENDATIONS

I. DEPARTMENT SUPPORT

The budget proposes a General Fund appropriation of $20.2 million for support of the department in 1987–88. This is an increase of $1.2 million, or 6.5 percent, above estimated current-year expenditures. Total expenditures, including those supported by the Program Development Fund, reimbursements, and federal funds, are proposed at $21.5 million, which is $1.1 million, or 5.2 percent, above estimated current-year expenditures.

Table 2 identifies the major changes in the department's support budget proposed for 1987–88.

Table 2
Department of Developmental Services
Department Support
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1986–87 expenditures (Budget Act)	$19,229	$20,614
Adjustments, 1986–87:		
1. Retirement adjustment	−264	−268
2. Reimbursement adjustment	—	53
1986–87 expenditures (revised)	$18,965	$20,399
Baseline adjustments, 1987–88:		
1. Retirement adjustment	−3	−3
2. Reimbursement adjustment	—	−170
3. "Special adjustment"	−204	−204
Program change proposals:		
1. Position to monitor education programs	47	47
2. Cost recovery system upgrade	1,395	1,395
1987–88 expenditures (proposed)	$20,200	$21,464
Change from 1986–87 (revised):		
Amount	$1,235	$1,065
Percent	6.5%	5.2%

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

We recommend approval of the following funding and staffing changes proposed for 1987–88 that are not discussed elsewhere in this analysis:

- Redirect a vacant position from the compensatory education program and $47,000 to oversee fiscal management of education services for SDC clients.
- An increase of $1,395,000 from the General Fund to upgrade the cost reporting system that manages SDC client care payment collections.

II. REGIONAL CENTERS AND COMMUNITY DEVELOPMENT PROGRAMS

The budget proposes expenditures of $393.3 million for regional centers and community development programs in 1987–88, including $386.7 million from the General Fund. This is an increase of $23.8 million, or 6.4 percent, above estimated current-year expenditures. Total expenditures, including the expenditures of SSI/SSP payments to residential care providers, are proposed at $509.4 million, which is an increase of $29.8 million, or 6.2 percent, above estimated current-year expenditures. The increase in expenditures is primarily due to an increase of $25.6 million based on regional center caseload trends.

Table 3 displays the components of regional centers and community development programs expenditures for the prior, current, and budget years.

Table 3
Department of Developmental Services
Regional Centers and Community Program Development
Expenditures and Funding Sources
1985–86 through 1987–88
(dollars in thousands)

Expenditures	Actual 1985–86	Est. 1986–87	Prop. 1987–88	Change From 1986–87 Amount	Change From 1986–87 Percent
Regional centers					
Operations					
Personal services	$75,367	$88,557	$93,536	$4,979	5.6%
Operating expenses	20,134	20,407	21,112	705	3.5
Subtotals	$95,501	$108,964	$114,648	$5,684	5.2%
Purchase of service					
Out-of-home care	$80,455	$108,835	$109,466	$631	0.6%
Day programs	52,102	65,905	76,041	10,136	15.4
Other	87,088	81,843	89,922	8,079	9.9
Subtotals	$219,645	$256,583	$275,429	$18,846	7.3%
Subtotals, regional centers	$315,146	$365,547	$390,077	$24,530	6.7%
Community program development					
Community placement	$7,601	($9,265) [a]	($7,740) [a]	(−$1,525) [a]	(−18.5%)
Medically fragile infants	—	—	(850) [a]	(850) [a]	(NMF) [b]
Program development	2,824	3,805	3,070	−735	−19.3
Cultural center	144	146	146	—	—
Subtotals, community development	$10,569	$3,951	$3,216	−$735	−18.6%
Subtotals	$325,715	$369,498	$393,293	$23,795	6.4%
SSI/SSP reimbursements	100,179	110,127	116,138	6,011	5.5
Totals	$425,894	$479,625	$509,431	$29,806	6.2%

Funding sources					
General Fund	*$367,922*	*$414,561*	*$438,920*	*$24,359*	*5.9%*
Regional centers	*321,840*	*363,903*	*386,658*	*22,755*	*6.3*
SSP [c]	*46,082*	*50,658*	*52,262*	*1,604*	*3.2*
Program Development Fund					
Parental fees	*2,753*	*4,010*	*3,565*	*−445*	*−11.1*
Federal reimbursements	*1,027*	*1,535*	*3,020*	*1,485*	*96.7*
Federal funds (SSI) [c]	*54,097*	*59,469*	*63,876*	*4,407*	*7.4*
Reimbursements	*95*	*50*	*50*	—	—

[a] These figures are incorporated in the regional centers numbers.
[b] Not a meaningful figure.
[c] Assumes funding split of 46 percent General Fund/54 percent federal funds in 1985–86 and 1986–87, and 45 percent General Fund/55 percent federal funds in 1987–88.

Table 4 shows the changes to the budget for regional centers and community development programs proposed in 1987–88.

Table 4
Department of Developmental Services
Regional Centers and Community Development Programs
Proposed 1987–88 Budget Changes
(dollars in thousands)

		Program Development Fund (PDF)			
	General Fund	*Parental Fees*	*Federal Reimbursements*	*Other Reimbursements*	*All Funds*
1986–87 expenditures (Budget Act)	$363,921	$4,971	$1,025	—	$369,917
Adjustments, 1986–87:					
1. Education	—	—	—	$50	50
2. Board of Control claims	−18	—	—	—	−18
3. PDF adjustment	—	−961	510	—	−451
1986–87 expenditures (revised)	$363,903	$4,010	$1,535	$50	$369,498
Baseline adjustments, 1987–88:					
1. Reduction due to Ch 355/86	−436	—	—	—	−436
2. Board of Control add back	18	—	—	—	18
3. PDF adjustment		−445	−290	—	−735
4. Community placement savings	−1,525	—	—	—	−1,525
Caseload and cost increases	25,623	—	—	—	25,623
Program change proposals:					
1. Medically fragile infants	—	—	850	—	850
2. Funding adjustment	−925	—	925	—	—
1987–88 expenditures (proposed)	$386,658	$3,565	$3,020	$50	$393,293
Change from 1986–87 (revised):					
Amount	$22,755	−$445	$1,485	—	$23,795
Percent	6.3%	−11.1%	96.7%	—	6.4%

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Client Characteristics

Developmentally disabled clients in the community and the state developmental centers (SDCs) have varying levels of disability and thus have many different service needs. As of January 1987, there were an estimated 82,775 clients in the regional center caseload. Of this number, 8 percent were developmental center clients, 63 percent resided at home or in an independent living arrangement, and 29 percent resided in a skilled nursing, intermediate care, or community care facility. Table 5 compares the characteristics of community care and SDC clients. Generally speaking, developmental center clients suffer from more severe disabilities than community care clients.

Table 5
Department of Developmental Services
Characteristics of Clients in the Community and the Developmental Centers [a]
December 1986

	Percent of Community Clients	*Percent of Developmental Center Clients*
Retardation level:		
Profoundly retarded	9%	72%
Severely retarded	14	13
Moderate or mildly retarded	58	8
Not retarded	11	1
Unspecified	7	6
Behavior assessment:		
Severe behavior problem	5	34
Moderate or minimal	22	32
No behavior problem	73	33
Violence:		
Frequently violent	1	11
Often violent	9	28
Seldom violent	18	14
Never violent	70	46
Unknown	2	—
Understanding:		
Spoken words not understood	18	49
Few words understood	26	32
Conversation understood	56	19
Walking:		
Wheelchair or bedridden	25	44
Can walk	75	56
Eating:		
Must be fed	8	24
Needs help	18	41
Can feed self	73	36
Unknown	1	—
Visual impairment:		
Totally blind	3	9
Severe impairment	2	8
Moderate impairment	9	10
Normal, near normal	81	68
Unknown	6	5

Hearing impairment:		
Profound or severe loss	4	9
Moderate or mild loss	6	16
No loss or not diagnosed	85	72
Unknown	5	3
Toileting:		
Needs diapers	20	50
Needs help toileting	18	31
Independent	61	19
Unknown	1	—
Major medical problems:		
Two or more	7	55
One	15	15
None	79	30

[a] Totals may not add to 100 because of rounding.

Regional Center Caseload

We recommend that when the department updates its budget proposal in May, it use caseload estimates which more closely correspond to historical trends.

The budget proposal estimates that the midyear regional center caseload in 1987–88 will increase by 4,673, or 5.6 percent, above the estimated current-year level. The proposal estimates that the residential care caseload will increase by 686 clients, or 4 percent, above the estimated current-year caseload.

The caseload estimates will be revised by the department in May, when additional data on clients become available. Table 6 shows the caseload change for 1982–83 through 1987–88.

Table 6
Regional Centers' Midyear Caseload
1983–84 through 1987–88

	Total Clients	*Percent Change*	*Residential Care Clients*	*Percent Change*
1983–84	70,898		16,337	
1984–85	74,184	4.6%	16,469	0.8%
1985–86	77,975	5.1	16,760	1.8
1986–87 (estimated)	82,775	6.2	17,130	2.2
1987–88 (proposed)	87,448	5.6	17,816	4.0

Our analysis indicates that the residential care caseload increase projected by the department is *greater* than historical trends would justify. The residential care caseload growth from 1983–84 to 1985–86 was only 1.3 percent per year. The estimated caseload growth in 1986–87 is only 2.2 percent, compared to 4 percent projected for 1987–88. The department could not give a reason for the higher projection. Staff indicated that the department would be revising its estimate in the May revision. This difference could have a significant effect on costs, because a 1 percent growth in residential care caseload results in General Fund costs of $1.6 million. Therefore, we recommend that when the department updates its proposal in May, it use caseload estimates which more closely correspond to historical trends.

Budget Bill Language Pertaining to SSI/SSP Funds

We recommend that the Legislature adopt Budget Bill language requiring that funds available from cost-of-living adjustments for Supplemental Security Income/State Supplementary Program (SSI/SSP) payments be used to offset General Fund costs for residential care services.

The budget does not propose to provide a cost-of-living adjustment (COLA) for residential care or other community service providers for the developmentally disabled. The budget proposes using a 3.6 percent increase in SSI/SSP funds, effective April 1988, to offset General Fund costs for residential care services.

The Budget Bill does not continue language contained in the 1986 Budget Act controlling the use of SSI/SSP increases exceeding the amount assumed in the budget. Without this language, SSI/SSP funds exceeding the budgeted amount may be used for purposes not approved by the Legislature. In fact, in 1984–85 the department used unanticipated SSI/SSP increases to grant residential care providers a COLA in addition to the one approved by the Legislature. This additional COLA resulted in residential care providers receiving two COLAs on a significant portion of their reimbursement rate and unfairly favored them with an overall COLA greater than other service providers.

Our recommendation does not imply that residential care providers do not need a COLA. We recognize that costs of providing services continue to increase whether or not COLAs are provided. This is the same situation faced by many other state-funded service providers in other programs. We raise this issue because providing COLAs is within the Legislature's authority, not the department's.

Therefore we recommend that the Legislature adopt Budget Bill language identical to language included in the 1986 Budget Act:

"Any funds available from cost-of-living adjustments in the Supplemental Security Income/State Supplementary Program (SSI/SSP) shall be used to offset General Fund costs for residential care services."

Residential Care Rate Pilot Project

We recommend that in its spring 1987 evaluation of the rate pilot project, the department discuss issues related to statewide implementation of the pilot project.

The Residential Care Rate Pilot project has been operating in three areas since February 1986. It involves (1) a restructured rate system and (2) rate increases for most residential care facilities.

The department initially planned to implement the pilot system statewide in January 1987; however, in 1986 the Legislature rejected the administration's proposed enabling legislation. The department proposes to continue the pilot project in 1987–88, at an estimated cost of $2.6 million. The department does not propose statewide implementation or a cost-of-living adjustment in the rates for the pilot project or other facilities.

Background. The main problem leading to the development of the rate system pilot project was that the current rate system does not precisely specify service requirements. In other words, there are no assurances that rate increases justified on the basis of fully funding a certain level of staff will actually result in staffing at the intended level. The department's proposal for restructuring the rate system, submitted to the Legislature in spring 1985, addressed the following specific problems:

- ***Residential Care Services Specifications Are Ambiguous.*** The pilot system incorporates objective performance requirements for residential care services. For example, the pilot system contains standards for training hours provided per client.
- ***Client Supervision Levels Are Unrealistic.*** The current residential care rates recognize four client supervision classifications—basic, minimal, moderate, and intensive. A facility may receive different rates for different clients. The pilot system recognizes three client supervision levels—basic, standard, and "additional care and training"—because providers told the department, in a 1983 study, that most clients fall into three levels. Under the pilot system, a facility receives one rate depending on the type of services provided, not separate rates for each client. This change was also based on information from providers.
- ***Special Services Are a Fiscal Problem.*** Under the current system, funding for "special services" such as behavior modification is difficult to control. The pilot system eliminates "special services" and instead uses a negotiated rate for those clients who need services not fitting into the standard levels of care. In order to reduce costs and assure that clients are receiving the correct level of care, the department proposes to limit care under the negotiated rate to two years.
- ***Current Rates Do Not Reflect Current Costs.*** The rates under the pilot project are generally higher than existing rates because (1) they are based on up-to-date cost information and (2) they incorporate costs for services that have not previously been considered in developing the rates, such as night shift staffing, staff illnesses, and staff vacations. Under the pilot project, rate categories are based on whether the facility is owner-or staff-operated, instead of facility size because the department's cost studies showed that the type of operation is a better predictor of cost than facility size.
- ***Pilot Implementation.*** Total costs of the pilot project are $2.6 million annually. This consists of $2.2 million for increased facility and staff costs and $416,000 to fund the department's decision to "red circle" facilities participating in the pilot. Red circling means that pilot program providers who would have lost reimbursement under the new rate structure will continue to receive their previous level of reimbursements.

The department indicates that it will prepare a report on the pilot project experience in spring 1987. Based on field visits to the three pilot project areas, we have the following observations:

1. *Objective Performance Requirements.* Both providers and regional centers praised the objective performance standards implemented in the pilot project, although providers disagreed with the level of performance required in specific cases—most notably, the number of training hours required in "standard" (level 2) and "additional care and training" (level 3) facilities. These standards give (a) the providers better direction regarding the expected level of services and (b) the regional centers a better basis for monitoring service delivery.

2. *Rate Increases.* In general, providers were pleased with the rate increases they received under the pilot project. They felt, however, that the wage costs used as a basis for the rates were too low. Many providers stated that they could not hire qualified staff at the wage level assumed in the rates.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

In response to provider comments, the department has increased the staff wages assumed in calculating rates for level 3 facilities under the pilot project. The department believes that this level of client care requires more qualified staff.

3. *Negotiated Rates.* Negotiated rates are developed based on a contract between the regional center and the provider for specific services that address specific goals for a particular client. Both providers and regional center staff stated that they were hindered in negotiating rates due to a lack of guidance from the department. In response, the department intends to streamline the negotiation process and to provide additional guidance regarding appropriate programs.

The department initially proposed to limit negotiated rates to two years or less for any one client. The department is currently reconsidering this policy based on comments from providers that some clients need longer than two years at a more costly level of care. Without this limitation, however, it is not certain that the negotiated rate category will represent a significant savings over providing special services.

Rates are Likely to be an Issue in the 1987–88 Budget. Residential care rates and expansion of the pilot project are likely to be an issue during deliberations on the 1987–88 budget. The Legislature needs additional information on the pilot project in considering this issue. Specifically, the Legislature needs to know:

- What changes would the department make to the pilot rate system if it were to be implemented statewide? For example, what changes would be made in performance standards and rate negotiation procedures?
- Are there any problems with classifying clients by level of care?
- What would be the costs of statewide implementation of (1) rate changes associated with the pilot and (2) regional center monitoring of provider performance?
- Do the performance standards and negotiated rate contracts make a difference in clients' level of functioning or quality of life? What is the basis for setting particular standards, such as the standards for client training hours, staffing, and staff qualifications?
- Have the problems with special services been eliminated with the negotiated rate process?

We recommend that the department (1) address these questions in the evaluation it intends to prepare in the spring of 1987 and (2) submit this report to the Legislature.

Community Program Development

The budget proposes expenditures of $11.8 million for community program development from various funds, including $8.6 million included in the regional center budgets. Table 7 displays the programs that would be funded from the $11.8 million.

Department of Developmental Services Projects

Current law requires the department to use funds from parental fees for projects developed in consultation with the State Council on Developmental Disabilities. Current law permits the department to use excess parental fees for purposes other than program development, however, when the funds are specifically appropriated for such purposes. In the

Table 7
Department of Developmental Services
Community Program Development
1987–88
(dollars in thousands)

		Program Development Fund		
Program	*General Fund*	*Parental Fees*	*Federal Reimbursements*	*All Funds*
Medically fragile infants	—	—	$850	$850
State council projects	—	$675	1,245	1,920
Department projects	—	1,150	—	1,150
Place clients from developmental centers	$5,075	1,740	925	7,740
Cultural center	146	—	—	146
Totals	$5,221	$3,565	$3,020	$11,806

past, the department has always used parental fees for new program development in a manner that required consultation with the state council. For 1987–88, however, the department proposes to spend $1.2 million from parental fees without seeking state council approval.

The budget proposes using these funds for five new projects: (1) installation of fire sprinklers in 200 intermediate care facilities for the developmentally disabled—habilitative (ICF/DD-Hs) ($500,000), (2) establishment of three foster care placement projects ($200,000), (3) feasibility study for an integrated uniform infant/child client identification and tracking system within state government ($100,000), (4) development of residential care staff training materials and procedures ($200,000), and (5) implementation of three in-home support demonstration projects ($150,000).

These projects are discussed in the sections that follow.

1. Fire Sprinkler Installation

We recommend that the department submit, prior to budget hearings, additional information regarding the need for fire sprinklers and a plan for limiting funding to those facilities that actually need to install sprinklers.

The department proposes to install fire sprinklers in 200 intermediate care facilities for the developmentally disabled—habilitative (ICF/DD-Hs) at a cost of $2,500 per facility, for a total cost of $500,000. The department is requesting sprinkler installation because fire codes have changed within the last year. Facilities must comply with fire codes to be certified for Medi-Cal payments. The 200 facilities include 100 existing facilities (out of approximately 190 total) plus 100 projected new facilities.

Our review indicates that, although the new fire code requires fire sprinklers in more facilities than the previous requirements, even under the new code sprinklers are not required in all facilities—for example, facilities that have clients who are capable of evacuation in case of fire. In addition, some facilities already have sprinklers. The department has not (a) determined how many facilities need financial assistance to install sprinklers or (b) developed a plan to limit funding to facilities that actually must install sprinklers.

Therefore, we recommend that the department submit, before budget hearings, (a) information on the number of facilities that actually need sprinklers and (b) a plan to provide funding for sprinkler installation only

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

in those facilities actually requiring sprinkler installation.

2. Foster Care Projects

We recommend deletion of $200,000 from parental fees proposed to initiate home-finding agencies because these services already exist. (Reduce Item 4300-101-172.)

The budget proposes $200,000 from parental fees to initiate three home-finding agencies (HFAs) for the developmentally disabled. The HFAs are licensed by the state to certify homes for foster care placement.

Currently, there are HFAs that serve "special needs" children, including developmentally disabled, medically involved, and mentally ill children. The department intends to use HFAs to find foster homes to care for developmentally disabled clients, certify the homes, and provide support to the home operators. The department indicates that, on an ongoing basis, the existing schedule of community care facility rates will be sufficient to reimburse the HFAs for their services and the support of the homes.

We believe that using HFAs is a good idea. However, because the existing rates are sufficient to cover the costs and existing HFAs already offer this type of service, we see no need for the department to request additional funds to initiate new HFAs. Therefore, we recommend that the Legislature reject the proposal to use program development funds for these projects.

3. Feasibility Study: Child Identification and Tracking System

We recommend deletion of $100,000 proposed to study the feasibility of developing a client registry system because the department has not documented the need for such a system. (Reduce Item 4300-101-172.)

The budget proposes $100,000 from parental fees for a contract to study the feasibility of developing a uniform integrated client registry among the various state agencies serving children under three years of age.

The department states that such a registry is necessary because currently the regional centers and agencies at the local level are unable to determine which children are being served by more than one agency. The department believes that this system will improve resource planning and improve overall service efficiency by eliminating service overlap.

Our analysis indicates that regional centers are already doing on a local level that which the department proposes to do at its headquarters. Thus, the state system would duplicate local systems. Specifically, regional centers have staff who monitor the services required by children, coordinate their activities with local representatives of other state agencies serving children, and identify which agencies are serving which children.

The department has not shown that the effort on the local level is not working. In fact, the people involved at the local level will probably be the same people who provide the department with the necessary information to enter into its centralized system. It is unlikely that a headquarters review will result in improvements in service efficiency that have not already been identified at the local level by the regional center staff and their counterparts in other agencies. In addition, the department has not documented why this type of system would be necessary for statewide purposes. Any data needed for planning could be collected much more efficiently through one-time studies using samples of clients.

For these reasons, we recommend that the Legislature delete the $100,000 proposed for the feasibility study.

4. Service Provider Training

We recommend that prior to budget hearings the department submit additional information regarding the number of colleges, instructors, and students the department anticipates will use the proposed new curriculum for training service providers.

The department proposes developing a residential care service provider curriculum. The two-semester curriculum would be developed by a contractor who would also train community college instructors at approximately 20 locations to teach it.

Certain colleges already teach service providers, but the department believes that the curriculum needs updating and improvements. The department has no data on how many colleges are teaching service providers, how many students attend training currently, and how many colleges would use the curriculum. The department has convened a task force to guide curriculum development under the proposal. The task force includes college representation.

During our field visits, service providers and regional center staff frequently commented that there is a need for more up-to-date training. Based on these conversations, we believe any training materials developed by the department would be used. The department has not, however, developed precise information on the number of colleges that would be able to use this curriculum, the number of instructors who would need to be trained, nor the number of sessions needed for training instructors. The cost of the training program could vary significantly depending on these factors. Therefore, we recommend that, prior to budget hearings, the department submit additional information regarding how many colleges and instructors can be expected to use the curriculum, the extent of training that must be provided to instructors, and how many students would enroll in these classes.

5. In-Home Support Demonstration Projects

We recommend that prior to budget hearings the department submit additional information on how the in-home support projects would be administered and evaluated.

The department proposes $150,000 to administer three innovative in-home support projects. The department's objective would be to determine whether certain services could help clients remain at home for less than the cost of an out-of-home placement. The department has not determined how many clients would be involved, the eligibility requirements, the general types of services that would be offered, nor how utilization of the services would be controlled.

We believe that this project has merit. However, the department needs to set out the parameters of the project in more detail. Therefore, we recommend that the department submit, before budget hearings, a plan describing (a) the parameters of the project and (b) how the results would be evaluated.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Use of Federal Reimbursements

We recommend that the department report on the likelihood and timing of federal approval of the proposal to fund community placements with federal funds.

The budget proposes using $925,000 from federal Developmental Disabilities Services Act funds for community placements for developmental center clients. These funds are available as a result of the budget proposal to eliminate the Area Boards on Developmental Disabilities (please see Item 4100).

There could be some delays in obtaining federal approval for a revised state plan, because (1) it is unlikely that the plan would be submitted before enactment of the Budget Act and (2) federal officials indicate that their review could take several months. Any delays may affect the schedule for community placements. Accordingly, we recommend that the department report during budget hearings on the likelihood and timing of federal approval of the budget proposal.

Medically Fragile Infants

We withhold recommendation on the medically fragile infants proposal pending (1) receipt of additional information on the proposed program and target population and (2) resolution of the responsibilities of various agencies involved.

The budget proposes using $850,000 in federal reimbursements to provide maintenance and in-home support services for medically fragile infants. These reimbursements are allocated under the federal Developmental Disabilities Act. They are available for regional center activities as a result of the budget proposal to eliminate the Area Boards on Developmental Disabilities. (Please see Item 4100.)

"Medically fragile" infants are infants who can live at home but require skilled nursing procedures such as tube feeding and tracheostomy care. The department believes that the number of medically fragile infants has increased significantly over the past several years because advanced technology in hospitals is saving many infants who would otherwise have died.

Apparently, the major problem is respite care. Parents need relief from the demanding medical needs of these infants—beyond the limited amount of respite services available from regional centers and the California Children's Services (CCS) program. Where other infants may be cared for by babysitters, these infants require skilled professionals due to their medical needs.

The $850,000 augmentation would pay for up to 16 hours per day of home nursing services for these infants. The proposal stems in part from a court order in southern California, in which the Eastern Los Angeles Regional Center was directed to provide 16 hours of daily nursing care for one infant.

Our review indicates that the department has identified a population that is increasing and requires services that are not easily accessible under current programs. We identified the following problems, however, with the department's proposal:

1. *The Department Has Not Defined Who Would Receive Services and What Level of Services Would Be Provided.* The department has not (a) determined the eligibility criteria for receiving services or the level of

services that would be provided, (b) collected basic statistics on the target population, (c) identified the level of services that are already being provided under various programs, or (d) projected the level of services that would be provided under the program.

2. *The Responsibilities of Other Programs Need Clarification.* The Medi-Cal and California Children's Services (CCS) programs in the Department of Health Services pay for medical services including in-home nursing in some situations. Regional centers and CCS pay for some respite care. The responsibilities of these agencies in paying for medical services need clarification. The CCS program and the Department of Developmental Services are currently negotiating an interagency agreement to do this.

3. *Establishing a New Program Based on the Court Ruling is Premature.* At the time this analysis was prepared, the department had not analyzed the court order to determine (a) whether it establishes a precedent for other cases and (b) whether it should be appealed.

4. *This New Program Could Be Very Costly.* We calculate that the $850,000 would pay for an average of five hours per week of nursing services for 100 children, based on $30 per hour for nursing care. The level of services requested by parents is likely to be significantly higher than this amount for two reasons. First, based on a statistical analysis of regional caseload data, the department estimates that there are 271 medically fragile infants who may require nursing services. Second, the level of services anticipated for some children would be significantly higher than five hours per week—up to 16 hours per *day*. At the 16 hour-per-day level, fewer than 10 infants could be served with the $850,000 augmentation. These costs exceed the costs of institutional care. In fact, the Medi-Cal program pays for in-home nursing on a "shift" basis only for persons who would otherwise be in an acute hospital, due to the costs involved.

In recognition that the $850,000 would not go very far in meeting the demand for services, the department indicates that it anticipates requesting additional funds in future years.

Due to these problems, we withhold recommendation on this proposal pending (1) additional information on the proposed program and target population and (2) resolution of the responsibilities of the various agencies involved.

III. DEVELOPMENTAL CENTERS

The budget proposes expenditures of $455.6 million (all funds) for programs to serve state developmental center (SDC) clients in 1987–88. This is a decrease of $8.5 million, or 1.8 percent, below estimated current-year expenditures. The primary reasons for the decrease are (1) a proposed reduction in special repair expenditures and (2) the full-year effect of 1986–87 population reductions.

The proposed General Fund appropriation for the SDCs is $65.7 million, which is $2.5 million, or 3.9 percent, above estimated current-year expenditures. This increase is primarily due to a request for $10 million from the General Fund to replace Medi-Cal reimbursements lost due to caseload reductions.

The budget projects an average population of 6,423 developmentally disabled clients in 1987–88 for the SDCs. This is 258 clients, or 3.9 percent, less than the current-year level. The average cost per client in 1987–88 is projected to be $64,667, an increase of $1,116, or 1.8 percent, above the cost per client in the current year. The budget proposes 9,224.5 personnel-

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

years in developmental services programs.

Table 8 displays expenditures, funding sources, population, positions, and cost per client for developmental services programs.

Table 8
Department of Developmental Services
Developmental Centers Budget Summary
1985–86 through 1987–88
(dollars in thousands)

Expenditures	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Developmental services programs	$410,911	$424,345	$415,322	−2.1%
Mental health programs	120,374	39,769	40,282	1.3
Totals	$531,285	$464,114	$455,604	−1.8%
Funding sources				
General Fund	*$402,475*	*$63,232*	*$65,711*	*3.9%*
SAFCO	*2,235*	—	—	—
Federal funds	*860*	*944*	*944*	—
Mental health reimbursements	*120,374*	*39,769*	*40,282*	*1.3*
Other reimbursements	*5,341*	*360,169*	*348,667*	*−3.2*
Developmental services programs				
Average population	6,956	6,681	6,423	−3.9
Personnel-years	10,122.0	9,584.2	9,224.5	−3.8
Cost per client	$59,077	$63,515	$64,667	1.8

Table 9 shows the changes to the current-year budget proposed for 1987–88.

Table 9
Department of Developmental Services
Programs for the Developmentally Disabled
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1986–87 expenditures (Budget Act)	$68,696	$467,561
Baseline adjustments, 1986–87:		
1. Elimination of vacant positions	−172	−172
2. Retirement contribution adjustment	−5,450	−5,965
3. Increase Medi-Cal reimbursements	—	2,745
4. Other increases and decreases	158	−55
1986–87 expenditures (revised)	$63,232	$464,114
Baseline adjustments, 1987–88:		
1. Full-year adjustment for janitorial contract	−1,610	−1,610
2. Add remaining facilities to janitorial contract	−117	−117
3. Full-year adjustment for ventilator staff	233	233
4. Adjust special repairs to 1985–86 level	−5,101	−5,101
5. Restore base funding levels	−1,427	−2,745
6. Other increases and decreases	103	21
Caseload and cost adjustments:		
1. Full-year effect of 1986–87 population adjustment	−8,250	−7,614
2. 1987–88 population adjustment—developmentally disabled	12,920	2,819
3. 1987–88 population adjustment—mentally disabled	—	−218

4. Increases for operating expenses	2,806	2,806
Program change proposals:		
1. Salary savings reduction	2,633	2,633
2. Transfer to support for education programs	−47	−47
3. Augment special repairs	1,000	1,000
4. Utilization review staff for mentally disabled programs	—	94
5. "Special adjustment"	−664	−664
1987–88 expenditures (proposed)	$65,711	$455,604
Change from 1986–87 (revised):		
Amount	$2,479	−$8,510
Percent	3.9%	−1.8%

Developmental Center Caseload Needs Updating

We recommend that in its May revision, the department (1) update the SDC population estimate utilizing the latest caseload information, (2) incorporate the Medi-Cal COLA estimate for long-term care assumed by the Department of Health Services in the Medi-Cal May revision, and (3) correct the technical error associated with SDC underbudgeting.

The budget proposal is based on a state developmental center (SDC) population of 6,515 at the end of the current year and a decrease of 185 clients during 1987–88. The proposal includes adjustments for changes in client characteristics and the transfer of 103 clients from Napa to Sonoma Developmental Center. The department indicates that it will revise the population estimates in May.

The department's budget proposal for the SDCs has many problems.

1. *Estimated Population Decline.* The department's proposal assumes that the SDC population will be 6,515 at the end of the current year. Our analysis indicates that this is not likely to be the case for two reasons. First, based on the actual 1986–87 beginning population of 6,897 and the department's current plan to reduce the population by 235 clients during the current year, the population at the end of the current year would be 6,662—or 147 clients higher than assumed by the department. Second, it is likely that the department will not meet its goal of reducing the population by 235 in the current year. As of December 1986, the SDC population was 6,860, a reduction of 37 clients over five months, or 7.4 clients per month. Thus, in order for the department to reduce the population by 235 by June 30, 1987, the SDC population would have to decrease by 198 clients in seven months, or 28.2 clients per month, almost a four-fold increase.

2. *Medi-Cal Reimbursement Estimates.* Currently, the department estimates a $10 million reduction in Medi-Cal reimbursements in 1987–88 based on an assumption that there will be no rate increases for long-term care in the Medi-Cal program in the budget year. This reduction is unlikely because long-term care facilities receive statutory cost-of-living adjustments (COLAs) based on cost studies. In our analysis of the budget for the Medi-Cal program (please see Item 4260), we recommend that the Department of Health Services (DHS) include an estimate of the required COLA in its May revision.

3. *Technical Error.* In calculating 1987–88 staffing adjustments at the SDCs, the department underbudgeted SDC resources by $2.5 million. The department indicates that it will correct this oversight in the May revision.

We recommend that in its May revision of expenditures, the department (1) update its SDC population estimates, (2) incorporate the DHS's Medi-Cal COLA estimate for long-term care in its projections of reimbursement, and (3) correct a technical underbudgeting error.

DEPARTMENT OF DEVELOPMENTAL SERVICES—Continued

Operating Expense Increase

We recommend that the operating expense increase proposal be reduced by $815,000 to correct double-budgeting. (Reduce Item 4300-111-001.)

The budget proposes an augmentation of $2.8 million from the General Fund to provide a 5 percent increase for "client-driven"—or variable—operating expenses. The department indicates that this increase is necessary to insure that SDCs maintain their licensing, certification, and accreditation requirements.

The specific operating expense categories affected include: utilities, clothing, personal supplies, recreation and religion, foodstuffs, maintenance, housekeeping and quartering, health and medical, drugs, medical and lab supplies, laundry, and vehicle operations. Expenditures for variable operating expenses are estimated at $48.5 million in the current year, or $7,393 per client.

Our analysis indicates that a portion of the 5 percent increase is double-budgeted because the base budget already includes an increase in per-client variable operating expenses. Specifically, the base budget includes $47.9 million for variable operating expenses in 1987–88. This is $7,522 per client, which is 1.7 percent above the 1986–87 level. This 1.7 percent increase in per-client expenditures is a result of reducing the SDC population while leaving variable operating expenses constant. The 1.7 percent increase results in excess funds of $815,000.

We recommend a reduction of $815,000 to correct double-budgeting of variable operating expenses.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY

Item 4300-301 from the General Fund, Special Account for Capital Outlay — Budget p. HW 99

Requested 1987–88	$13,203,000
Recommended approval	8,350,000
Recommended augmentation	242,000
Recommended reduction	848,000
Net Recommended Approval	7,744,000
Recommendation pending	4,005,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Withhold recommendation on $3,667,000 requested under Item 4300-301-036(2) to construct the Children's Units at Camarillo Developmental Center pending receipt of preliminary plans. 652
2. Children's Units, Camarillo Developmental Center. Recommend that, prior to budget hearings, the department ex- 652

plain to the Legislature why this project has been delayed and what steps it is taking to expedite the project.

3. ***Fire/Life Safety and Environmental Improvements, Units 18, 19, 30–33—Camarillo Developmental Center. Reduce Item 4300-301-036(3) by $378,000.*** Recommend a reduction because the project should be designed based on a lower future cost and only preliminary plans should be funded at this time. 653
4. Withhold recommendation on $92,000 requested under Item 4300-301-036(5) for a New Water Distribution System at Fairview Developmental Center pending information on the required water flow rate for fire protection. 654
5. ***Remodel Laboratory, R&T Building, Fairview Developmental Center. Augment Item 4300-301-036(6) by $242,000.*** Recommend an augmentation because the department should be able to remodel the laboratory in the current year. 654
6. Withhold recommendation on $213,000 requested under Item 4300-301-036(7) for handicapped accessibility modifications at Porterville Developmental Center pending receipt of information detailing (1) existing noncomplying conditions, and (2) modifications necessary for accessibility compliance under current building codes. 655
7. Minor Projects. Withhold recommendation on one minor project ($142,000) under Item 4300-301-036(1) pending receipt of additional information. 656
8. ***Minor Projects. Reduce Item 4300-301-036(1) by $361,000.*** Recommend deletion of three projects for which the need has not been substantiated. 656

ANALYSIS AND RECOMMENDATIONS

The budget proposes $13.2 million from the General Fund, Special Account for Capital Outlay, for the Department of Developmental Services' capital outlay program in 1987–88. This includes $11.9 million for six major projects and $1.3 million for 15 minor projects ($200,000 or less per project). The department's proposal and our recommendations are summarized in Table 1.

Major Projects

The budget includes $11.9 million for six major capital outlay projects. Three projects at Camarillo State Hospital and Developmental Center—Construct (a) Children's Units and Fire/Life Safety and Environmental Improvements at (b) Units 11–15, and (c) Units 18 and 19, and Units 30–33—provide improvements for patients of the Department of Mental Health.

Our analysis indicates that one major project ($7.3 million) for Fire/Life Safety and Environmental Improvements (FLSEI) in Units 11–15 at Camarillo Developmental Center is justified and we recommend approval as budgeted. Upon completion, these units will provide 102 skilled nursing facility beds, 32 acute psychiatric beds, and a day treatment adolescent school. The proposed work and cost is consistent with the project as previously approved by the Legislature.

Our recommendations on each of the remaining major projects are discussed below.

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

Table 1
Department of Developmental Services
1987–88 Capital Outlay Program
Item 4300-301-036
(dollars in thousands)

Sub-Item	*Project Title*	*Location*	*Phase*[a]	*Budget Bill Amount*	*Analyst's Recommendation*	*Est. Future Cost*
(2)	Construct Children's Units	Camarillo	c	$3,667	pending	—
(3)	Fire/Life Safety and Environmental Improvements, Units 11–15	Camarillo	c	7,289	7,289	—
(4)	Fire/Life Safety and Environmental Improvements, Units 18, 19, 30–33	Camarillo	pw	582	204	$7,682
(5)	Water Distribution System	Fairview	pw	92	pending	1,360
(6)	Remodel Lab, R&T Building	Fairview	pw	29	271	268
(7)	Handicapped Accessibility, Phase II	Porterville	wc	213	pending	—
(1)	Minor Projects	Statewide	pwc	1,331	828	—
	Totals			$13,203	$8,592	$9,310

[a] Phase symbols indicate: p = preliminary plans; w = working drawings; and c = construction.

Children's Units at Camarillo Still Behind Schedule

We withhold recommendation on $3,667,000 under Item 4300-301-036 (2) to construct the Children's Units at Camarillo Developmental Center, pending receipt of preliminary plans.

Further, we recommend that, prior to budget hearings, the department explain to the Legislature why the project has been delayed and what steps are being taken to expedite the project.

The budget proposes $3.7 million to construct the new children's units at Camarillo Developmental Center. The project would provide a new 30,000 gross square foot (gsf) facility for child psychiatric programs administered by the Department of Mental Health.

Background. In the 1984 Budget Act, the Legislature appropriated $232,000 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 most cost effective solution. During hearings on the 1986 Budget Bill, the department submitted the life-cycle cost analysis to the Legislature. At that time, even though preliminary plans had not yet been completed, the department requested funds for working drawings and construction for a new building. Lacking sufficient information to substantiate the request for construction funds, the Legislature, in an attempt to expedite the project, appropriated $218,000 for working drawings. The Legislature also (1) adopted supplemental report language directing the department to complete preliminary plans by January 1987 and working drawings by September 1987 and (2) adopted Budget Act language directing the Office of State Architect (OSA) to submit a quarterly report to the Joint Legislative Budget Committee on the status of each capital outlay project funded for the department.

The OSA's January 27, 1987 report indicates that the preliminary plans have been delayed because of (1) unspecified contract negotiation problems with the consulting architectural firm and (2) unspecified additional programming to accommodate the design of a new building. On this basis, the preliminary plans are now scheduled to be completed by April 1987. Working drawings will not begin until July 1987, and may be completed in mid-April 1988—seven months later than the schedule approved by the Legislature in 1986. Given the department's track record, it is not clear that this revised schedule will be met or that construction funds will be needed in the budget year. In view of this extended schedule, we recommend that, prior to budget hearings, the department explain to the Legislature why the project has been delayed and what steps are being taken to expedite the project. In any case, lacking completed preliminary plans and associated cost estimates, we withhold recommendation on the department's request for construction funds ($3,667,000) under Item 4440-301-036(2).

Camarillo Developmental Center, Units 18, 19, 30–33

We recommend a reduction of $378,000 for fire/life safety and environmental improvements of Units 18, 19, 30–33 because the project should be designed based on a lower future cost and only preliminary plans should be funded at this time.

The budget includes $582,000 for preliminary plans ($204,000) and working drawings ($378,000) to remodel Units 18, 19, 30–32 for fire/life safety and environmental improvements. Upon completion of the remodeling work, the units will be returned to their current use. Unit 33 will be used as a day treatment activity center and will be remodeled for fire/life safety compliance only. Units 18 and 19 will house 60 adolescents, Units 30–32 will house 103 adults with acute psychiatric disorders. The department's estimated future cost of the remodeling is $7.7 million. This estimate, however, includes *20 percent* for construction contingency. Consistent with the State Administrative Manual guidelines, the contingency amount should not exceed 7 percent. On this basis, the estimated future cost should be $6,233,000—a $1.4 million reduction.

The need to remodel these units is clear. The units were constructed 40 to 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 atmosphere 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.

The department's schedule for this project indicates that preliminary plans and working drawings will be completed in October 1987 and June 1988, respectively, and construction can begin by October 1988. It is questionable, however, that the department will meet this schedule because of the department's record in completing projects. Thus, we recommend that working drawing funds be deleted.

It also is appropriate to fund preliminary plans *only* at this time because of the new policy recently articulated by the Director of the Department of Finance. The Director of Finance indicated in a letter to the Chairman of the Joint Legislative Budget Committee dated October 23, 1986 that the administration intends to proceed with projects without regard to the legislatively approved cost whenever design funds are available but construction funds have not been appropriated. Thus, if the project cost based on preliminary plans exceeds the cost recognized by the Legislature when it approved the project (and working drawing funds have been appropriated), the administration will proceed with working drawings. There-

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

fore, given the department's record for implementing projects and the administration's policy to proceed with projects without regard to legislatively approved cost, we recommend that $204,000 be provided to develop preliminary plans for the project at an estimated future cost of $6.2 million.

New Water Distribution System, Fairview Developmental Center

We withhold recommendation on $92,000 under Item 4300-301-036(5) for preliminary plans and working drawings to provide a new water distribution system and modify the existing irrigation system pending receipt of information which specifies the required water flow rate for fire protection.

The budget requests $92,000 for preliminary plans and working drawings to modify the water distribution system at Fairview Developmental Center. The proposal would provide separate systems for domestic water and fire protection and modify the irrigation system. The department's estimated future project cost is $1.4 million.

The department indicates that the primary justification for this project is that the existing water distribution system does not provide adequate fire protection.

Our analysis indicates that the proposed project may not be necessary. The department bases the proposal on the need to provide water at the rate of 3,500 gallons per minute (gpm) for fire protection purposes. The department, however, has not been able to substantiate that this rate is required by fire codes. Consequently, until the department determines the water flow rate for fire protection which is necessary to conform with code requirements, it is unclear to what extent (if any) the distribution system needs to be modified. Thus, we withhold recommendation on the $92,000 under Item 4300-301-036(5), pending the department's determination of the code requirements based on existing site conditions. We suggest the department consult the Office of the State Fire Marshal to assist in making this determination.

Remodel Laboratory, R&T Building, Fairview Developmental Center

We recommend an augmentation of $242,000 to add construction funds to remodel the laboratory in the R&T Building at Fairview Developmental Center. (Increase Item 4300-301-036(6) by $242,000.)

The budget includes $29,000 for preliminary plans ($10,000) and working drawings ($19,000) to remodel the laboratory in the R&T Building. The department's estimated total project cost is $299,000.

The department indicates that the proposed remodeling would add 824 assignable square feet (asf) to the existing laboratory for a total of 2,920 asf. The proposed modifications would reconfigure the existing laboratory space to provide an improved layout for laboratory activities including a separate laboratory for microbiology. The proposed modifications are justified and should proceed. Because the remodeling work is not complex and the project relatively small, we see no benefit in delaying the construction phase until 1988–89. Consequently, we recommend that preliminary plans, working drawings, *and* construction be funded. The department's cost estimate for the project, however, contains a construction contingency of 20 percent. The State Administrative Manual specifies that the construction contingency for renovations be budgeted at 7 percent. On this basis, the estimated total project cost would be $271,000. Consequently, we recommend that Item 4300-301-036(6) be increased by $242,000.

Handicapped Accessibility, Phase II, Porterville Developmental Center

We withhold recommendation on $213,000 requested for handicapped accessibility modifications at Porterville Developmental Center pending receipt of information detailing the (1) existing noncomplying conditions at the proposed buildings, and (2) modifications necessary to achieve compliance, based on current accessibility compliance standards.

The budget includes $213,000 for working drawings ($15,000) and construction ($198,000) for a project to provide handicapped accessibility at the administration building, auditorium, swimming pool, and rehabilitation and sheltered workshop, canteen, and school buildings. The department indicates that these facilities are generally accessible but must be modified to achieve *full* compliance.

The department's request is based on surveys performed over six years ago. The State Building Code became effective July 1, 1982, and has been subsequently revised. Thus, the department's survey may not comply with current building codes concerning handicapped accessibility. Thus, we withhold recommendation on the requested amount pending receipt of information which identifies the (1) existing noncomplying conditions and (2) improvements necessary to achieve compliance, based on current accessibility standards.

Moreover, the department's request includes the installation of signs and other relatively inexpensive items such as water closet seat assemblies and paper cup dispensers which should be installed without waiting for approval of a major capital outlay project. These items range in cost from $100 to $750. It is not clear why items of this nature have not been accomplished using available resources rather than waiting for a major capital outlay project to be funded.

Table 2
Department of Developmental Services
1987–88 Minor Capital Outlay Projects
(dollars in thousands)

Project	*Developmental Center*	*Budget Bill Amount*	*Analyst's Recommendation*
Install Piped-in Oxygen, Suction System	Lanterman	$61	$61
Install Medical Air, Suction	Porterville	132	132
Air Conditioning, Pharmacy Lab/Central Supply	Camarillo	142	pending
Install Storage Cabinet in Restroom/Bathing Areas	Sonoma	56	56
Install Additional Ground Fault Plugs	Lanterman	19	19
Install Corner Guards	Camarillo	25	25
Remodel M-4 Building for Canteen, Physical, Therapy, and Supportive Equipment Shop	Porterville	192	192
Install Protective Wainscot, Phase I	Lanterman	70	70
Kitchen Energy Conservation and Modernization	Camarillo	195	—
Restroom Facilities—Farm	Fairview	36	36
Install Electric Doors, Unit 12 and Canteen	Lanterman	16	16
Soundproof Emergency Generator Plant	Sonoma	32	—
Construct Sidewalks	Porterville	109	109
Increase Cooling to Linen Rooms	Porterville	92	92
Auditorium, Locker Room Addition	Stockton	134	—
Personal Alarm System	Camarillo	20	20
Totals		$1,331	$828

DEPARTMENT OF DEVELOPMENTAL SERVICES—CAPITAL OUTLAY—Continued

Minor Projects

The budget requests $1.3 million for 16 minor capital outlay projects. Table 2 lists the projects, along with our recommendations on each.

Air Conditioning, Pharmacy Lab and Central Supply, Camarillo Developmental Center

We withhold recommendation on $142,000 to air condition the Pharmacy Lab and Central Supply pending receipt of additional information.

The proposal would provide air conditioning to the pharmacy, laboratory, pathology, and central supply at Camarillo Developmental Center. The department indicates that temperatures in the pharmacy exceed recommended temperatures for the storage of pharmaceutical supplies. The department, however, has not substantiated the need for air conditioning in the laboratory, pathology, or central supply areas. Moreover, the department does not adequately describe or provide cost estimates for air conditioning to *any* of the proposed facilities.

Consequently, we withhold recommendation on the proposed project pending receipt of a detailed project description, cost estimates for each area of work, and justification for including the laboratory, pathology and central supply in this minor project.

Kitchen Energy Conservation and Modernization, Camarillo Developmental Center

We recommend deletion of $195,000 to modify the kitchen/dining areas because the department has not substantiated the need for this proposal.

The budget includes $195,000 to remodel the kitchen/dining areas to provide a more home-like atmosphere and increase energy efficiency. The department, however, has not (1) indicated specifically what work is proposed, (2) substantiated the estimated energy savings or (3) provided a detailed cost estimate for the work. Thus, we recommend deletion of the requested $195,000.

Auditorium, Locker Room Addition, Stockton Developmental Center

We recommend deletion of $134,000 requested for an auditorium, locker room addition.

The department requests $134,000 to provide a locker room addition to the auditorium. The department has not substantiated the need for this addition nor provided a description of the project or a cost estimate for the proposed modifications. Lacking this information, we recommend deletion of the requested amount.

Sound Proof Emergency Generator Plant

We recommend deletion of $32,000 requested to sound proof the emergency generator plant at Sonoma Developmental Center because this work is not necessary.

The budget includes $32,000 to sound proof the walls and ceiling of the emergency electrical generator plant at the Sonoma Developmental Center. The department indicates that the project would lower the noise level to more acceptable levels.

An emergency electrical generator provides backup power for facilities when the main sources of electrical energy are disrupted. Generally, this occurs rarely. Thus, we see no reason why a facility which is utilized only occasionally should be sound proofed. Consequently, we recommend deletion of the requested amount.

Supplemental Report Language

For purpose of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

Health and Welfare Agency
DEPARTMENT OF MENTAL HEALTH

Item 4440 from the General Fund — Budget p. HW 101

Requested 1987–88	$936,969,000
Estimated 1986–87	921,767,000
Actual 1985–86	843,226,000
Requested increase (excluding amount for salary increases) $15,202,000 (+1.7 percent)	
Total recommended reduction	416,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
4440-001-001—Department administration	General	$23,423,000
4440-011-001—State hospitals	General	296,356,000
4440-011-036—State hospitals	SAFCO	715,000
4440-016-001—Conditional release	General	17,944,000
4440-101-001—Local assistance	General	491,046,000
4440-111-001—Brain-damaged adults	General	3,047,000
4440-131-001—Special education	General	2,000,000
Reimbursements	—	102,438,000
Subtotal		$936,969,000
4440-001-890—Department support	Federal	562,000
4440-101-890—Local assistance	Federal	16,140,000
Total		$953,671,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. ***Increased Federal Reimbursements for Administration. Reduce Item 4440-001-001 by $416,000.*** Recommend reduction because the department has not adequately justified how it intends to spend the General Fund savings resulting from increased federal reimbursements. 661
2. Conditional Release Program. Recommend that the 663

DEPARTMENT OF MENTAL HEALTH—Continued

Legislature adopt supplemental report language requiring the department to submit by October 1, 1987 a report detailing the department's plan to monitor and verify treatment services, costs, and outcome indicators.

3. La Paz Geropsychiatric Unit. Recommend adoption of Budget Bill language that (a) permits the department to continue an agreement with a county to operate mental health programs on state hospital grounds and (b) protects the state General Fund. Further recommend that the agreement be included as part of the county plan. 671
4. Special Education Pupils. Recommend that prior to budget hearings, the department submit improved caseload and costs estimates for services to special education pupils. 673

GENERAL PROGRAM STATEMENT

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

1. Administer the Short-Doyle and Lanterman-Petris-Short Acts. The acts provide for delivery of mental health services through a state-county partnership and for involuntary treatment of the mentally disabled.

2. Operate Atascadero, Metropolitan, Napa, and Patton State Hospitals and manage programs for the mentally disabled located at Camarillo State Hospital.

3. Administer and manage the Conditional Release program, which provides for the community outpatient treatment and supervision of judicially committed persons and mentally disordered offenders.

The department is authorized 6,682.8 personnel-years in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $953,671,000 (all funds) for the support of the Department of Mental Health's activities in 1987–88. This is an increase of $11,975,000, or 1.3 percent, above estimated current-year expenditures.

Proposed General Fund expenditures for support of the department and its programs are $833.8 million, which is $14.6 million, or 1.8 percent, above the estimated General Fund expenditures in the current year.

Table 1
Department of Mental Health
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

Expenditures	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Change from 1986–87* *Amount*	*Percent*
Department support	$29,695	$41,537	$43,497	$1,960	4.7%
State hospitals	289,906	317,582	326,697	9,115	2.9
Local programs	539,989	574,630	575,055	425	0.1
Special education pupils	—	5,375	5,375	—	—
Brain-damaged adults	—	2,572	3,047	475	18.5
Totals	$859,590	$941,696	$953,671	$11,975	1.3%

Funding sources					
General Fund	*$751,174*	*$819,174*	*$833,816*	*$14,642*	*1.8%*
Special Account for Capital Outlay	*695*	*1,715*	*715*	*−1,000*	*−58.3*
Federal funds	*16,364*	*19,929*	*16,702*	*−3,227*	*−16.2*
Reimbursements	*91,357*	*100,878*	*102,438*	*1,560*	*1.5*
Personnel-years					
Department support	367.9	353.4	347.5	−5.9	−1.7
State hospitals	3,977.7	6,329.4	6,546.5	217.1	3.4
Totals	4,345.6	6,682.8	6,894.0	211.2	3.2%

Table 1 provides a summary of the department's budget for the past, current, and budget years. The expenditure tables that follow have not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

ANALYSIS AND RECOMMENDATIONS

A. DEPARTMENT SUPPORT

The budget proposes expenditures of $43.5 million for support of the Department of Mental Health in 1987–88. This amount consists of $25.6 million for department administration and $17.9 million for the Conditional Release program. This is an increase of $1,960,000, or 4.7 percent, above estimated current-year expenditures. The increase is due primarily to full-year funding of the Conditional Release program. Table 2 shows the department's expenditures and funding sources for the past, current, and budget years.

Table 2
Department of Mental Health Support
Expenditures and Funding Sources
1985–86 through 1987–88
(dollars in thousands)

Expenditures	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Change from 1986–87 Amount*	*Change from 1986–87 Percent*
Department administration	$25,077	$25,588	$25,553	−$35	−0.1%
Conditional release	4,618	15,949	17,944	1,995	12.5
Totals	$29,695	$41,537	$43,497	$1,960	4.7%
Funding sources					
General Fund	*$26,805*	*$39,316*	*$41,367*	*2,051*	*5.2%*
Federal funds	*1,007*	*586*	*562*	*−24*	*−4.1*
Reimbursements	*1,883*	*1,635*	*1,568*	*−67*	*−4.1*

Budget Changes Table 3 shows the changes in the department's administration budget proposed for 1987–88. The major changes are (1) a transfer of $751,000 from the Conditional Release program, (2) an increase of $212,000 in federal funds for the Primary Prevention program, (3) an increase of $125,000 for programming related to the state hospital cost recovery system, and (4) deletion of one-time funds available in the current year ($1 million). The budget includes a "Special Adjustment" reduction of $237,000, which is approximately 1 percent of the General Fund amount for administration.

DEPARTMENT OF MENTAL HEALTH—Continued

Table 3
Department of Mental Health Administration
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1986–87 expenditures (Budget Act)	$22,979	$24,324
Adjustments, 1986–87:		
1. Transfer from local assistance, Monterey County, Office of Mental Health Social Services (OMHSS)	328	468
2. Carry-over of AIDS funds, Ch 767/85	270	270
3. PERS rate reduction	−204	−214
4. Allocation to Board of Control, Ch 1485/86	−6	−6
5. Federal grants	—	47
6. Primary prevention, Section 28	—	72
7. Increase in Medi-Cal reimbursements	—	560
8. California state library grant	—	67
1986–87 expenditures (revised)	$23,367	$25,588
Baseline adjustments, 1987–88:		
1. Transfer of OMHSS to Monterey County	−328	−468
2. Reduction in one-time AIDS funds carry-over	−270	−270
3. Restore allocation to Board of Control, Ch 1485/86	6	6
4. Reduction in grants	—	−163
5. Reduction for one-time equipment	−107	−107
Program change proposals:		
1. State hospital utilization review	68	68
2. Direct treatment services, Conditional Release program	751	751
3. Programming for hospital cost recovery system	125	125
4. Medical records consultant	48	48
5. Primary prevention	—	212
6. "Special adjustment"	−237	−237
1987–88 expenditures (proposed)	$23,423	$25,553
Change from 1986–87 (revised):		
Amount	$56	−$35
Percent	0.2%	−0.1%

Table 4 shows the changes in the 1987–88 budget for the Conditional Release program. The major changes are (1) a transfer of $751,000 to administration, (2) a reduction of $181,000 for a "Special Adjustment," and (3) an increase of approximately $2.9 million for full-year funding and population adjustments.

Table 4
Conditional Release Program
Proposed 1987–88 Budget Changes
General Fund
(dollars in thousands)

	Amount
1986–87 expenditures (Budget Act)	$18,262
Adjustments, 1986–87:	
1. Savings due to adjustment in mentally disordered offender (MDO) population	−2,313
1986–87 expenditures (revised)	$15,949
Baseline adjustments, 1987–88:	
1. Restore 1986–87 MDO population adjustment	2,313
2. MDO population adjustment	−1,123
3. Full-year costs for patient care	1,148

4. Full-year costs for residential care rate supplement	589
Program change proposals:	
1. Direct treatment services, transfer to administration	−751
2. "Special adjustment"	−181
1987–88 expenditures (proposed)	$17,944
Change from 1986–87 (revised):	
Amount	$1,995
Percent	12.5%

Proposed Changes Recommended For Approval

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

- Increase of $68,000 for state hospital utilization review.
- Increase of $125,000 for rewriting computer programs that generate management reports in the state hospital cost recovery system.
- Transfer of $48,000 from state hospitals to administration for one medical record consultant to perform utilization review.
- Increase of $212,000 in federal funds for consultation and training materials for primary prevention projects.

Increased Federal Reimbursements for Administration

We recommend deletion of $416,000 from the General Fund because the department has not adequately justified how it intends to spend the General Fund savings resulting from increased federal reimbursements. (Reduce Item 4440-001-001.)

In the current year, through the Section 28, 1986 Budget Act, process, the department received expenditure authority for an additional $560,000 resulting from increased federal reimbursements for administration related to Medi-Cal services. The department indicates that the funds will be used in 1986–87 to cover shortfalls in funding for administering Medi-Cal services.

The budget for 1987–88 assumes that the increased reimbursement level will continue. This frees up $560,000 from the General Fund for other purposes. The department proposes to spend the available General Fund money for three purposes: (1) $144,000 for reconciliation of the base budget for salaries and wages to projected needs for 1987–88 (basically, to cover unfunded merit salary adjustments and increased benefits), (2) $237,000 to offset the 1 percent "special adjustment," and (3) $179,000 as a reserve in case the department is required to administratively establish positions for Short-Doyle/Medi-Cal utilization review.

Our review indicates that the department only has justified how it intends to spend $144,000 of the $560,000. With respect to the $237,000, the net effect of the department's proposal is that the "special adjustment" is not a real reduction. The adjustment is merely a funding reduction on paper. The department has not documented why it should be exempt from the reduction that has been applied to all state departments.

With respect to the $179,000, the department indicates that these funds will be used to administratively establish positions in case the department is directed to improve its reviews of utilization reviews under the Short-Doyle/Medi-Cal program. Absent (1) a firm requirement for enhanced utilization review and (2) a budget change proposal documenting the specific expenditure adjustments required, these funds are unjustified.

The department has not adequately justified spending the $416,000 Gen-

DEPARTMENT OF MENTAL HEALTH—Continued

eral Fund savings resulting from increased federal reimbursements. Accordingly, we recommend that the Legislature delete this amount from the department's General Fund appropriation. (Reduce Item 4440-001-001 by $416,000.)

Conditional Release Program

The budget includes $17.9 million for the Conditional Release program in 1987–88. This amount consists of $14.9 million for services to judicially committed clients and $3 million for services to mentally disordered offenders.

Chapters 1327 and 1488, Statutes of 1984 (AB 2381 and SB 1984), required the department to develop a system of community treatment and supervision for judicially committed persons. Specifically, the acts required that (1) the state be 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 mentally disordered sex offenders who are discharged from a state hospital, and (2) an individual found not guilty by reason of insanity complete at least one year of outpatient treatment and supervision before a court may determine that the person is restored to sanity.

A third statute, Ch 1419/85 (SB 1296), established a new commitment mechanism for prison inmates eligible for parole (please see discussion under Section B, State Hospital Programs). The act directed the department to develop both inpatient and outpatient treatment components for this mentally disordered offender population. The department intends to provide outpatient treatment for this population through the Conditional Release program.

Current-Year Caseload and Program Implementation

In response to the legislative mandates, the department established service standards and developed procedures to verify that clients received the supervision and treatment specified in the standards. The program is designed to assure public safety, as well as treatment.

The department sought initially to contract with county mental health programs to establish distinct and separate conditional release program units. Where counties did not wish to participate or where a multi-county service area was appropriate, the department sought to contract with private service providers or with larger counties willing to provide service to another county's clientele.

During the initial phases of implementation, the department contracted with 31 counties either individually or as part of a multi-county regional program and secured two private provider contracts. One of these contracts serves the three-county area of Santa Clara, Monterey, and San Benito while the other contract serves San Francisco County. The total caseload for the 35 counties is 704 clients. The total budget of $11.2 million consists of $9.8 million for postrelease services and $1.4 million for prerelease services. The average cost per client in county programs is approximately $13,900 annually for postrelease services.

In order to provide supervision and treatment services for the remaining counties, the department developed a direct services operation. The department established a field operation in Sacramento utilizing six administratively established staff positions and six contract positions. The total caseload for the direct services operation is 63 clients. The total budget of $1.2 million consists of $1,012,000 for postrelease services and $151,000 for prerelease services. The average cost per client in the state-directed operation is approximately $16,000 annually for postrelease services.

Cost Differences Between State and Contract Services. The department provides several reasons to account for the $2,100 per-client difference between average contract costs and average state direct services costs. First, the direct state services staff are utilized inefficiently because they are dispersed over 23 counties representing 12 percent of the conditional release caseload. These counties are generally the smaller, less populated northern counties.

Second, unlike counties, the department does not have an existing network of treatment services. The department must enter into contracts for a full range of services, even though many of the services may never be used. The costs per unit of service are relatively high under these circumstances.

Budget-Year Changes

The 1987–88 budget proposes to redirect $751,000 from the conditional release item to the department support item and permanently establish the field operation with 12 positions. These positions would serve 88 clients and provide coverage in 23 counties. The total cost of the direct services operations would be $1,655,000 for postrelease services and $247,000 for prerelease services. The average cost per client is projected to be approximately $18,800 annually for postrelease services.

At the time this analysis was prepared, negotiations with contract providers for 1987–88 had not begun. However, the department expects to renew the two private provider contracts and 30 of the 31 existing county contracts. The department indicates that Fresno County does not intend to renew its current contract.

Continued County Participation Uncertain

Some counties have indicated that they may withdraw from participation in the Conditional Release program because they do not wish to be responsible for supervising and treating the new mentally disordered offender population. This population is perceived to be dangerous and unpredictable. If counties elect to discontinue their conditional release programs, costs could increase substantially because of the cost differential between state-provided and locally provided services.

The Legislature Needs Data and Verification Plan

We recommend that the Legislature adopt supplemental report language requiring the department to report to the Legislature by October 1, 1987 on the department's plan for monitoring and verifying Conditional Release program treatment services, cost reporting, and outcome indicators.

While we believe that the department's implementation of the program is generally consistent with legislative mandates, we have some concerns. We are currently unable to determine (1) if the actual programs being implemented conform with the department's program guidelines and (2) whether the program is effective in treating the clients. This is because the department currently lacks a comprehensive system for monitoring and verifying the provision of contracted treatment services, the costs of service delivery, and outcome indicators such as reoffense rates.

DEPARTMENT OF MENTAL HEALTH—Continued

If the Legislature is to evaluate the efficacy and impact of the Conditional Release program, the department must have the capability to compile and verify client and program specific information on services and outcomes. Specifically, the monitoring system should compile data that can provide answers to the following types of questions:

- Do counties, private providers, and state direct service staff adhere to the program's core standards for treatment services and supervision? How often do service providers seek and/or obtain waivers of core standards?
- Are counties and private providers accurately reflecting the cost of services provided? Are the costs for those services similar to the cost for equivalent services provided by Short-Doyle programs or other private providers?
- Are counties and private providers submitting treatment data and cost reports in a timely manner?
- Is the program "successful" in reducing the reoffense rate? Do the outcome indicators reveal any patterns regarding more or less effective means of treatment?

Accordingly, we recommend that the Legislature adopt supplemental report language requiring the department to report to the Legislature by October 1, 1987 on the department's plan for monitoring and verifying Conditional Release program treatment services, cost reporting, and outcome indicators. The following language is consistent with this recommendation:

"The Department of Mental Health shall report to the Legislature by October 1, 1987 on the department's plan for monitoring and verifying Conditional Release program treatment services, cost reporting, and outcome indicators. The plan shall include a detailed timeline indicating when all monitoring components for the Conditional Release program are to be implemented and fully operational."

B. STATE HOSPITAL PROGRAMS

The budget proposes expenditures of $326.7 million, all funds, in 1987–88 for clients in state hospitals for the mentally disabled. This is an increase of $9.1 million, or 2.9 percent, above estimated current-year expenditures. The budget proposes an appropriation of $296.4 million from the General Fund for these programs, which is an increase of $13.7 million, or 4.9 percent, above estimated current-year expenditures. Table 5 shows components of the state hospital budget in the past, current, and budget years.

Table 5
State Hospitals
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

Expenditures	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Change Amount*	*Change Percent*
County clients	$168,390	$176,420	$180,457	$4,037	2.3%
Judicially committed clients	98,821	107,914	116,614	8,700	8.1
Other clients[a]	22,695	33,248	29,626	−3,622	−10.9
Totals	$289,906	$317,582	$326,697	$9,115	2.9%
Funding sources					

General Fund	*$265,369*	*$282,619*	*$296,356*	*$13,737*	*4.9%*
Reimbursements	*23,842*	*33,248*	*29,626*	*−3,622*	*−10.9*
SAFCO	*695*	*1,715*	*715*	*−1,000*	*−58.3*
Average population					
County clients	2,681	2,604	2,543	−61	−2.3%
Judicially committed clients	1,613	1,606	1,696	90	5.6
Other clients [a]	438	593	506	−87	−14.7
Totals	4,732	4,803	4,745	−58	−1.2%
Authorized positions					
Department of Mental Health	3,978	7,130	6,989	−141	−2.0%
Department of Developmental Services	2,988	954	957	3	0.3
Totals	6,966	8,084	7,946	−138	−1.7%
Cost per client					
County clients	$62,809	$67,750	$70,962	$3,213	4.7%
Judicially committed clients	61,265	67,194	68,758	1,564	2.3
Other clients [a]	51,815	56,067	58,549	2,482	4.4
Totals	$61,265	$66,122	$68,851	$1,728	4.1%

[a] Includes clients from the Department of Corrections, the Department of Developmental Services (DDS), and the California Youth Authority.

Client Characteristics

State hospitals serve four categories of clients: county clients, judicially committed clients, mentally disordered offenders, 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.

Mentally disordered offenders include prison parolees who have been committed to the department for treatment and supervision.

Clients of other institutions include mentally disabled clients of the Departments of Corrections and the Youth Authority who are transferred to state hospitals to receive medication and other treatment. Also included are developmentally disabled clients housed at Napa State Hospital.

Proposed Budget Changes

The budget for 1987–88 proposes a net increase of $13.7 million from estimated current-year General Fund expenditures. The major changes proposed for 1987–88 include (1) an increase of $5.5 million for salary savings and workers' compensation, (2) an increase of $6.9 million for full-year funding for the Mentally Disordered Offender (MDO) program and a population adjustment, (3) an increase of $1.5 million to reflect changes in the judicially committed population, (4) a reduction of $3 million to reflect a "special adjustment," and (5) an increase of $1.4 million for state hospital operating expenses and equipment. Table 6 displays the budget changes proposed for 1987–88.

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Table 6
State Hospitals
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1986–87 expenditures (Budget Act)	$289,928	$324,557
Adjustments, 1986–87:		
1. Retirement reduction	−4,040	−4,440
2. Los Angeles County reimbursement for geropsych unit	—	761
3. Reduce estimated costs for mentally disordered offenders	−3,245	−3,245
4. Miscellaneous technical adjustments	−24	−51
1986–87 expenditures (revised)	$282,619	$317,582
Baseline adjustments, 1987–88:		
1. Replace 1986–87 Board of Control reduction	17	17
2. License and renewal fees	52	52
3. Full-year effect of 1986–87 population adjustment	−2,722	−3,335
4. Full-year effect of Metropolitan laundry contract	−90	−90
5. Full-year funding for treatment staff augmentation	3,555	3,555
6. Reduce Napa personal alarm funding	—	−1,000
7. Increase workers' compensation at Napa	38	38
8. Adjust for 1986–87 budget changes in the Department of Developmental Services	187	187
9. Increase for CALSTARS	25	25
10. Reduce Los Angeles County reimbursement for geropsych unit	—	−541
Caseload and cost adjustments:		
1. Full-year funding and population adjustments for the Mentally Disordered Offender (MDO) program	6,851	6,851
2. Reduce developmentally disabled caseload at Napa	—	−2,180
3. Increases in the judicially committed	1,469	1,181
Program change proposals:		
1. Increase peace officers at Atascadero	234	234
2. State hospital utilization review	285	285
3. Transfer to administration to establish medical record consultant	−48	−48
4. Increase for operating expenses and equipment	1,377	1,377
5. Workers' compensation increase	3,000	3,000
6. Salary savings reduction	2,500	2,500
7. "Special adjustment"	−2,994	−2,994
8. Rounding adjustment	1	1
1987–88 expenditures (proposed)	$296,356	$326,697
Change from 1986–87 (revised):		
Amount	$13,737	$9,115
Percent	4.9%	2.9%

Proposed Changes Recommended For Approval

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

- An increase of $6.9 million to reflect full-year funding and a population adjustment for the MDO program.
- An increase of $1.5 million to reflect changes in the judicially committed population.
- An increase of $285,000 and five positions for state hospital utilization review.
- A technical adjustment to reestablish a reimbursed position at Metropolitan State Hospital.
- An increase of $1.4 million for state hospital operating expenses and equipment.

- Increases of $3 million for workers' compensation and $2.5 million to reduce salary savings.
- An increase of $234,000 and 14 positions for peace officers at Atascadero State Hospital.

Mentally Disordered Offender (MDO) Program

We recommend approval.

The budget proposes $10,148,000 to fund the full-year inpatient costs of the MDO program in 1987–88. This is an increase of $6,851,000, or 108 percent, over estimated current-year expenditures.

Chapter 1419, Statutes of 1985 (SB 1296), established a new mechanism to extend the commitment of mentally disordered prison inmates who are eligible for parole. In order to be subject to commitment under the act, a prisoner 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.

The Department of Corrections (CDC) must first certify an inmate as meeting commitment criteria and the Department of Mental Health then conducts its own evaluation to determine whether or not an inmate should be committed to the program.

The procedures for committing a prisoner as an MDO contain administrative and judicial safeguards to ensure the protection of an individual's due process rights.

Caseload. Last year the department projected a first-year caseload of 244 inpatient clients and 130 outpatient clients for a total population of 374 in 1986–87. The department subsequently has revised that projection to 113 inpatient clients and 16 outpatient clients for a total population of 129. At the time this analysis was prepared, the CDC had processed for certification 133 individuals and certified approximately 40 individuals. The CDC expects to certify 12 to 15 individuals per month during the remainder of the current year.

The department projects a caseload of 309 clients in 1987–88, consisting of 209 inpatients and 100 outpatients. This is a net increase of 180 from the estimated current-year caseload. This population projection is consistent with the CDC's estimates of an average of 12 to 15 MDO certifications per month.

Implementation Problems. There appear to be several factors contributing to the fact that the actual number of MDO commitments is less than the number projected. First, with a program of this magnitude, a lag in program implementation can be expected. In retrospect, the budget was optimistic about the time needed for the CDC to develop policies and procedures for identifying and certifying inmates eligible for MDO commitment.

Second, the specific commitment criteria appear to have some impact on the number of potential MDO commitments. Specifically, department staff have encountered difficulties with the following:

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- Consistent interpretation of the definition of "severe" mental disorder. The interpretation of severe may differ between clinicians.
- Linkage of the mental disorder as a cause or aggravating factor in the crime for which the prisoner was convicted. Some offenses and convictions are reduced through plea bargaining and the linkage of the disorder to the actual crime committed is difficult.
- Rigidity of the commitment criteria to only include crimes that involved the use of force or violence or cause severe bodily injury. The department indicates that there are some prison inmates whose mental disorder is comparable to inmates certified for the MDO commitment, yet because their crimes do not fall into the appropriate category, they are not eligible for commitment.

Third, we suspect that the CDC currently does not have the capacity to identify and assess all of the parole-eligible inmates that could qualify for commitment. In the current year, the CDC has a total of 88.5 clinician positions to assess and treat a total inmate population of 53,000. This represents a ratio of 1 clinician for approximately every 600 inmates.

In its 1987–88 budget, the CDC recognizes this problem. It requests an additional 19.5 positions to increase the staffing ratio of psychiatrists and psychologists to the total inmate population. As part of the justification for the positions, the CDC cites additional workload associated with the MDO program amounting to 1,700 patient-evaluation hours, or approximately one person-year.

In sum, the department's request is reasonable and consistent with legislative mandates. Accordingly, we recommend approval.

State Hospital Staffing Initiative: Planned Scheduled Treatment

The state embarked upon a three-year program in 1984–85 of increasing treatment staff in state hospitals. The final increment of staff was added in the current fiscal year. The budget for 1987–88 includes approximately $18.4 million for the 682 state hospital treatment staff positions added during the three-year period.

The primary objectives of the staffing augmentations were to improve the quantity and quality of treatment services delivered to state hospital clients. The department states that the improvements will assist all five hospitals that serve the mentally disabled 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.

In our initial evaluation of the staffing augmentations, we found that the department's proposal lacked performance criteria and standards for accountability. To address these deficiencies, the Legislature directed the department to develop:

- A management information system capable of monitoring a program's delivery of scheduled treatment services.
- Treatment performance criteria for each program and a process to evaluate the quality of scheduled treatment services.
- A long-term study to determine the effects of the proposed staffing augmentations.

In response to these directives, the department has:

- Pilot tested and begun implementing a management information system involving personal computers. The system can produce weekly schedules specific to each provider category and historical reports showing each treatment provider's actual workload. The department reports that this information has proven to be valuable to staff in organizing their activities, to program management as a monitoring mechanism, and to department headquarters to oversee state hospital operations.

- Developed a protocol to evaluate (1) the degree to which the actual implemented program concurs with the program's treatment objectives and (2) other aspects of patient management and treatment. The department has field tested its protocol and is beginning evaluations of all of the hospitals.
- Collected baseline data for all programs that received new staff and is now collecting information specific to the unique objectives of each program. In three to four years, the department will have compiled sufficient data for review and statistical analysis. The department indicates that progress reports will be submitted on an annual basis.

Observations and Comments. Our review of the department's program implementation indicates that the scheduled hours of treatment have increased and that the systems for monitoring treatment quality have improved. We cannot conclude what the enhancements to planned scheduled treatment have accomplished, however, until actual data become available. As these data become available, we will be able to determine whether the changes in planned scheduled treatment have resulted in (1) a decrease in the length of stay in a state hospital, (2) an increase in the number of activities for daily living skills, (3) a decrease in the number of special incident reports, (4) a decrease in the frequency of exhibition of different types of psychiatric symptoms, and (5) a reduction in the recidivism rate for clients entering state hospitals.

In sum, our analysis indicates that the department has responded to legislative requests and needs. The department has developed, or is developing, programs for quantitative, qualitative, and long-term program review and evaluation. Overall, the department's implementation of the planned scheduled treatment program has been commendable.

C. LOCAL MENTAL HEALTH PROGRAMS

The budget proposes an appropriation of $491 million from the General Fund for assistance to local mental health programs in 1987–88. This is a reduction of $1.6 million, or 0.3 percent, below estimated current-year expenditures. Total expenditures for local mental health programs in 1987–88, including expenditures from reimbursements and federal funds, are proposed at $575 million, which is $425,000, or 0.1 percent, above estimated current-year expenditures. Table 7 displays local assistance expenditures and funding sources for the past, current, and budget years.

Table 7

Local Mental Health Programs Expenditures and Funding Sources 1985–86 through 1987–88 (dollars in thousands)

	Actual	Est.	Prop.	Change from 1986–87	
Expenditures	*1985–86*	*1986–87*	*1987–88*	*Amount*	*Percent*
Short-Doyle allocations	$508,393	$538,644	$542,267	$3,233	0.6%

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Community residential treatment systems	15,800	15,910	15,910	—	—
Primary prevention projects	439	343	738	395	115.2
Federal block grant	15,357	14,817	16,140	1,323	8.9
Federal disaster grant	—	226	—	−226	−100.0
Sacramento mental health center	—	4,690	—	−4,690	−100.0
Totals	$539,989	$574,630	$575,055	$425	0.1%
Funding sources					
General Fund	*$459,000*	*$492,668*	*$491,046*	*−$1,622*	*−0.3%*
Reimbursements	*65,632*	*62,619*	*67,869*	*5,250*	*8.4*
Federal funds	*15,357*	*19,343*	*16,140*	*−3,203*	*−16.6*

Budget Changes. Table 8 shows the changes to the budget for local mental health programs that are proposed for 1987–88. The department requests $395,000 for increased spending authorization for primary prevention projects. We recommend approval of this proposal.

Table 8

Local Mental Health Programs
Proposed 1987–88 Budget Changes
(dollars in thousands)

	General Fund	*All Funds*
1986–87 expenditures (Budget Act)	$492,606	$561,353
Adjustments, 1986–87:		
1. Transfer Office of Mental Health Social Services (OMHSS) from Monterey County to department administration	−328	−328
2. Carry-over of funds for Sacramento mental health center (Ch 1440/85)	390	4,690
3. Federal disaster grant	—	226
4. Primary prevention, Section 28	—	70
5. Increase in Medi-Cal reimbursements	—	9,941
6. Reduction in block grant due to Gramm-Rudman-Hollings	—	−1,323
7. Rounding adjustment	—	1
1986–87 expenditures (revised)	$492,668	$574,630
Baseline adjustments, 1987–88:		
1. Transfer of OMHSS to Monterey County	328	328
2. Reduction of Ch 1440/85 funds	−390	−4,690
3. Reduction of federal disaster grant	—	−226
4. Increase in Medi-Cal reimbursements	—	4,856
5. Restoration of block grant funds	—	1,323
6. Sunset of Ventura County project, Ch 1474/84	−1,560	−1,560
7. Rounding adjustment	—	−1
Program change proposals:		
1. Primary prevention	—	395
1987–88 expenditures (proposed)	$491,046	$575,055
Change from 1986–87 (revised):		
Amount	−$1,622	$425
Percent	−0.3%	0.1%

La Paz Geropsychiatric Unit

We recommend that the Legislature adopt Budget Bill language that (1) permits the department to continue an agreement with a county to operate programs for mental health patients on state hospital grounds and (2) protects the state General Fund. We further recommend that the agreement be included as part of the county plan in order to facilitate enforcement of the agreement (Item 4440-101-001).

The 1986 Budget Act includes language that permits the department to enter into an agreement with a county to operate programs for mental health patients on state hospital grounds, provided that the department ensures that the agreement does not result in net costs to the state General Fund.

The language was the result of a Los Angeles County proposal to assume operation of the geropsychiatric unit at Metropolitan State Hospital in an effort to free up state hospital beds for the county's acutely psychotic jail population. The net effect was to change the characteristics of a portion of the county's state hospital patients from long-term chronically mentally ill to short-term acutely psychotic.

When we analyzed the proposal last year, we determined it would result in a General Fund revenue shortfall. On our recommendation, the Legislature adopted language in the 1986 Budget Act to ensure that there would be no net impact to the General Fund. This language is not included in the 1987 Budget Bill.

The department and Los Angeles County intend to continue their agreement for 1987–88. To protect General Fund revenues, we recommend that the Legislature adopt Budget Bill language that is similar to the language in the 1986 Budget Act. We further recommend that the agreement be included as part of the county plan to facilitate enforcement of the agreement and protection of the General Fund.

Budget Bill language consistent with this recommendation is as follows:

"The Department of Mental Health (DMH) may enter into or continue an agreement with a county which allows the county to operate programs for Lanterman-Petris-Short (LPS) mental health patients on state hospital grounds, only if the agreement is included in the county plan and provides that:

"(a) The county shall be fiscally responsible for any shortfall of revenues to the General Fund below the DMH estimate generated by patient fees, insurance claims, Medi-Cal, and Medicare payments made on behalf of the county's patients that would have been collected had the county not assumed responsibility for the provision of care of county patients on state hospital grounds.

"(b) The estimated amount of revenues shall be cited in the agreement. In no event shall the amount shown in the agreement be less than the average revenue collected per patient-day in the period between July 1985 and May 1986.

"(c) The DMH shall monitor monthly average revenues per patient-day using the standard computer-generated monthly cost-of-care statements produced by the Department of Developmental Services (DDS) for purposes of determining the county share of costs of county LPS patients served in state hospitals.

"(d) The DMH shall, if necessary, adjust the contracting county's monthly payment from Item 4440-101-001 of the Budget Act of 1987 if the projected annual revenue shortfall exceeds $500,000.

DEPARTMENT OF MENTAL HEALTH—Continued

"(e) At the end of the fiscal year, the DMH shall (1) determine the amount of revenues generated on behalf of the contracting county's patients using the DDS' annual settlement billing report, (2) determine if the revenues collected equaled the amount of revenues specified to be collected in the agreement, and (3) remit to the state General Fund the amount of any shortfall in revenues. At the time of settlement of the determination of any shortfall in revenues, state hospital cost savings shall be taken into consideration."

D. SPECIAL EDUCATION PUPILS

Program Potentially Underfunded by $18 Million

The budget for 1987–88 includes $5.4 million to fund the mental health assessment, treatment, and case management costs of special education pupils. This amount consists of $2 million from the General Fund, $2.7 million in reimbursements from the State Department of Education (SDE), and $675,000 in federal reimbursements for Short-Doyle/Medi-Cal services. These amounts are the same as current-year estimated expenditures.

Background. Chapter 1747, Statutes of 1984 (AB 3632), and Ch 1274/85 (AB 882) mandated local mental health programs to provide assessment, treatment, and case management services to special education pupils referred by school districts. These services are to be provided pursuant to a child's individualized education plan (IEP) if necessary for him/her to benefit from education.

The acts appropriated $1.6 million to the department for purposes of conducting mental health assessments and participating in developing IEPs during the period March 1, 1986 through June 30, 1986, referred to as the "window period."

The window period was intended to provide data on the potential programmatic and fiscal impact of implementing AB 3632/AB 882. The department estimates, based on preliminary data, that counties assessed 4,114 children during the window period. This figure is based on information from 40 counties representing 96 percent of the state's enrollment in special education programs. The department indicates that the total assessment figure is "soft" because (1) what constituted an assessment varied from county to county (some counties conducted "paper" assessments while other counties initiated face-to-face assessments) and (2) the data suggest that some counties did not comprehensively assess their special education population.

Apparently, some counties elected to assess realistically and/or aggressively their special education population to obtain some perspective on the level of illness of special education children, as intended by AB 3632/AB 882. These counties recognized that, by doing this, they placed themselves in a tenuous situation because they did not have additional funds for providing mental health services identified as needed during the assessments. If the counties failed to provide mental health services, then the counties were not complying with AB 3632/AB 882. If the counties did provide the services, they would have to fund them by reducing other Short-Doyle mental health services.

On the other hand, some counties chose not to assess thoroughly their special education population before resolution of the funding issue because they wanted to avoid having to choose between not complying with AB 3632/AB 882 and reducing other Short-Doyle services.

Current-Year Allocations. The department allocated the $5,375,000 available in the current year as follows:

- $775,000 to 21 counties specifically identified by the SDE as currently providing treatment services.
- $1,840,000 based on special education enrollment.
- $1,840,000 based on enrollment of seriously emotionally disturbed children.
- $920,000 based on the population of children ages 5 through 19.

The 1986 Budget Act included language directing the Superintendent of Public Instruction to collect data regarding the costs to local educational agencies of providing noneducational services to special education pupils. The language directed the Auditor General to review the local data to determine whether or not the data are accurate and to report the findings and recommendations to the Legislature by February 1, 1987. Depending on the Auditor General's findings, the Director of Finance may transfer additional funds from the Department of Education (SDE) to the department and the Department of Social Services (DSS) as appropriate. At the time this analysis was prepared, the Auditor General's report was not yet completed.

Potential Fiscal Impact. We used the department's preliminary data from the window period to generate a figure representing the potential fiscal impact of AB 3632 and AB 882. The department estimates that of the total children assessed, approximately 3,700 will require mental health services. The department estimates the total cost of the recommended services to be $36 million, or approximately $9,700 per child. These costs would be reduced to the extent that some residential services would be reimbursed by the DSS instead of the department under AB 3632/AB 882.

The department indicates that a portion of these services are already being provided. Specifically, it estimates that:

- Services for 1,200 children are being funded through Short-Doyle and Short-Doyle/Medi-Cal, at a cost of $12.2 million.
- Services for 1,000 children are being funded through private insurance, private organizations, and parents, at a cost of $9.6 million.

The remaining population, 1,500 children at a cost of $9,700 per child, generates an expense of $14.2 million. Of this amount, $5.4 million is currently budgeted; consequently, the actual additional fiscal impact of implementing AB 3632/AB 882 would be approximately $8.8 million. If the department is required to assume $9.6 million in costs currently funded by private insurance, private organizations, and parents, the additional impact could be approximately $18.4 million. These cost estimates may vary greatly as more reliable assessment data become available.

Additional Data Needed

We recommend that prior to budget hearings, the department submit to the Legislature improved caseload and cost estimates for services to special education pupils.

The department indicates that it will conduct follow-up surveys in February and March 1987 to obtain additional caseload and cost estimates from the counties. Until this information and the Auditor General's report are available, the Legislature has no accurate basis for determining the

DEPARTMENT OF MENTAL HEALTH—Continued

level of funding necessary for providing services to special education children. Accordingly, we recommend that prior to budget hearings, the department present to the Legislature its caseload and cost estimates for services to special education pupils.

While the preliminary data from the department are inconsistent and "soft," it is apparent that the implementation of AB 3632/AB 882 could have a substantial fiscal impact on the state General Fund. Our analysis indicates that the Legislature has several options in funding the implementation of AB 3632/AB 882.

Option 1: Augment the Department's Budget by the Amount Needed—Potentially $18.4 Million. The provision of AB 3632/AB 882 services is a new responsibility for the counties. In order to make this program "whole," the Legislature would have to augment the department's budget to fund the additional services.

Option 2: Redirect Existing Short-Doyle Funds. The department could reduce existing Short-Doyle allocations to fund AB 3632/AB 882 services. Counties would have to reorganize their adult programs and service delivery systems to accommodate the new responsibilities. The potential impact on other county services such as acute inpatient care or crisis intervention services, day treatment, or other discretionary services may be substantial.

Option 3: Augment the SDE Budget by the Amount Needed—Potentially $18.4 Million—and Use These Funds to Reimburse Local Mental Health Agencies for Providing Required Services. Several counties contend that the fiscal responsibility of providing services to special education children rests with the SDE. These counties argue that under federal law, it is the SDE's responsibility to provide education and related services—including necessary mental health services. Consequently, the counties contend that the SDE should bear the fiscal impact of those services.

Implementing this option would require legislation to modify fiscal responsibility provisions in AB 3632/AB 882 and associated regulations.

Option 4: Direct Local School Districts to Utilize Existing State and Local Budgeted Resources to Fund Services Provided by Local Mental Health Agencies. Education programs may be curtailed or eliminated if funds were redirected to fund mental health services.

E. BRAIN-DAMAGED ADULTS

We recommend approval.

The budget proposes expenditures of $3,047,000 from the General Fund for the brain-damaged adults program. This is an increase of $475,000, or 19 percent, above estimated current-year expenditures. The increase is due primarily to a baseline adjustment for full-year funding for three additional regional resource centers (RRCs) funded in 1986–87.

The budget also includes a budget change proposal to fund four additional RRCs for one month in 1987–88. The total cost of this proposal is $100,000 in 1987–88, with a full-year cost of $1.2 million in 1988–89. With the addition of these four RRCs, the department indicates that it will have fulfilled the requirements of Ch 1658/84. The department intends to submit its annual progress report to the Legislature by March 31, 1987. Our analysis indicates that the department's implementation plan and the budget change proposal are consistent with the requirements of Ch 1658/84. Accordingly, we recommend approval.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY

Item 4440-301 from the General Fund, Special Account for Capital Outlay Budget p. HW 115

Requested 1987–88	$23,543,000
Recommended approval	17,083,000
Recommended reduction	4,544,000
Recommendation pending	1,916,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Mental Health Initiative. Recommend that, prior to budget hearings, the department provide to the Legislature (1) an update of the hospital remodeling plan, and (2) a plan for housing the mentally disordered offender (MDO) population. 676
2. Staff Personal Alarm Systems. Withhold recommendation on $1,073,000 for four proposals for staff personal alarm systems at Metropolitan and Patton State Hospitals pending receipt of the department's plan for installing the devices and further review of recently revised cost estimates. 677
3. ***Fire/Life Safety and Ward Remodeling. Atascadero State Hospital. Reduce Item 4440-301-036(3) by $491,000.*** Recommend deletion of working drawing funds because only preliminary plans should be funded. 678
4. Fire/Life Safety and Ward Remodeling. Atascadero State Hospital. Withhold recommendation on $243,000 under Item 4440-301-036(3) for preliminary plans pending receipt of written assurances from the Joint Commission on Accreditation of Hospitals that the proposed remodeling project meets accreditation standards. 678
5. Fire/Life Safety and Ward Remodeling. Atascadero State Hospital. Recommend that the department report to the Legislature, prior to budget hearings, on the programmatic and/or security arrangements that will be required as a result of single-bed room remodeling. 678
6. ***Fire/Life Safety and Environmental Improvements, Building 199. Napa State Hosital. Reduce Item 4440-301-036(10) by $674,000.*** Recommend deletion of working drawing funds because only preliminary plans should be funded. 679
7. Fire/Life Safety and Environmental Improvements, Building 199. Napa State Hospital. Withhold recommendation of $333,000 under Item 4440-301-036(10) for preliminary plans pending receipt of the department's review of the project for excessive costs. 679

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

8. Handicapped Accessibility. Patton State Hospital. Withhold recommendation on $267,000 under Item 4440-301-036(13) pending receipt of a report detailing (1) existing noncomplying conditions and (2) measures necessary to achieve compliance. 680
9. ***Office Additions. Atascadero State Hospital. Reduce Item 4440-301-036(2) by $2,060,000.*** Recommend reduction because project should be constructed at the cost previously approved by the Legislature. 680
10. ***Fire/Life Safety in Support Areas, Atascadero State Hospital. Reduce Item 4440-301-036(4) by $46,000.*** Recommend a reduction because the proposed project is overbudgeted. 681
11. ***Fire/Life Safety and Environmental Improvements, "N" Building. Patton State Hospital. Reduce Item 4440-301-036(11) by $1.2 million.*** Recommend a reduction to reflect the project and cost previously approved by the Legislature. 682

ANALYSIS AND RECOMMENDATIONS

The budget requests $23.5 million from the General Fund, Special Account for Capital Outlay for 13 major projects and ten minor capital outlay projects ($200,000 or less per project).

Status of Five-Year Plan to Remodel All State Hospital Beds and Attain Accreditation.

We recommend that, prior to budget hearings, the department provide to the Legislature (1) an update of the hospital remodeling plan, and (2) a plan for housing the mentally disordered offender (MDO) population.

The capital outlay program proposed for the state's mental health hospitals in 1987–88 represents the fourth 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. At the time the mental health initiative was first proposed, the department indicated that the entire capital outlay program would be completed by 1988–89 at a cost of over $100 million.

The 1987–88 Governor's Budget indicates that the remodeling program includes 5,355 beds at an estimated cost of $174 million. The budget indicates that 1,165 beds (22 percent) of the total have been remodeled or are currently in the construction phase and that 484 additional beds will be remodeled in 1987–88. Thus, at the end of the fourth year of the mental health initiative, 1,649 beds (31 percent) will be remodeled or in construction. It is apparent that the department will not be able to complete the remodeling program at the end of five years as originally envisioned in the mental health initiative. Moreover, based on the budget document, it is not clear when all of the projects will be completed.

In addition, the mentally disordered offender (MDO) population is not included in the department's plan. As we indicate in our analysis of the department's support/operations budget, the department expects an MDO caseload of 209 inpatient clients in 1987–88. The department, however, has not indicated how the MDO population will be housed in departmental facilities. For these reasons, we recommend that, prior to budget hearings, the department provide the Legislature, (1) an update of the department's facilities master plan, and (2) a plan for housing the current and projected MDO population.

Major Capital Outlay Projects

The budget includes $22.8 million for 13 major capital outlay projects. Table 1 summarizes these projects along with our recommendations.

Table 1
Department of Mental Health
1987–88 Major Capital Outlay Program
(dollars in thousands)

Sub-Item	*Project*	*Location*	*Phase* [a]	*Budget Bill Amount*	*Analyst's Recommendation*	*Est. Future Cost* [b]
(2)	Provide Office Additions	Atascadero	c	$5,393	$3,333	—
(3)	Fire/Life Safety and Ward Remodeling	Atascadero	pw	734	pending	$10,372
(4)	Fire/Life Safety in Support Areas	Atascadero	pwc	505	459	—
(5)	Fire/Life Safety and Environmental Improvements (Alarm System) R&T Bldg.	Metropolitan	w	36	pending	257
(6)	Remodel Laundry	Metropolitan	pw	38	38	519
(7)	Personal Alarm System, CTE Building	Metropolitan	pwc	541	pending	—
(8)	Personal Alarm System, CTW Building	Metropolitan	w	66	pending	475
(9)	Fire/Life Safety and Environmental Improvements, Building 195	Napa	c	6,326	6,326	—
(10)	Fire/Life Safety and Environmental Improvements and Roof Replacement, Building 199	Napa	pw	1,007	pending	14,451
(11)	Fire/Life Safety and Environmental Improvements, N Building	Patton	c	7,262	6,062	—
(12)	30 Building Fire/Life Safety and Environmental Improvements, Handicap, Replace A/C	Patton	p	206	206	9,469
(13)	Handicapped Accessibility, Phase II	Patton	pwc	267	pending	—
(14)	Personal Alarm System, R&T Building	Patton	pwc	430	pending	—
	Totals			$22,811	$16,424	$35,543

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

A. Projects For Which Recommendation is Withheld

Staff Personal Alarm Systems—Metropolitan and Patton State Hospitals

We withhold recommendation on $1,073,000 requested under Items 4440-301-036(5), (7), (8) and (14) to install staff personal alarm systems at Metropolitan and Patton State Hospitals pending receipt of the department's plan for installing the systems and review of recently revised cost estimates.

The budget includes $1.1 million for four projects to install personal

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

alarm systems at Metropolitan and Patton State Hospitals. Three projects ($643,000) are proposed for Metropolitan and one ($430,000) is for Patton. The department's estimated future cost is $732,000 for two projects at Metropolitan State Hospital, with no future cost for the other two projects.

In the *Supplemental Report of the 1986 Budget Act,* the Legislature adopted language specifying that the Department of Mental Health transmit a plan for the installation of personal alarm systems for staff safety in state hospital units to the Joint Legislative Budget Committee and fiscal committees no later than September 1, 1986. On November 7, 1986 the department submitted its plan to the Legislature. The plan indicates that the estimated cost of implementing personal alarm systems at the five Department of Mental Health state hospital facilities will total $5.3 million between the current year and 1991–92. The projects proposed for the 1987–88 budget are consistent with the department's implementation plan.

The staff's personal alarm systems consist of ultrasonic personal transmitters which, when activated, send a signal to sound receivers that are installed in the ceilings or walls of the facility. The sound receivers activate visual and audible alarms at security control stations thus alerting security staff of the alarm.

The department indicates that in several cases the alarm system will be incorporated with scheduled remodeling projects. For example, the department plans to install the alarm system in the R&T Buildings at Metropolitan and Patton during the construction phase of each project. It is not clear, however, whether the department will have the alarms installed by the construction contractor outside of the competitive bidding process or by another contractor under competitive bidding.

In addition, the department submitted cost estimates just prior to the printing of this analysis which indicate that the amounts included in the budget are insufficient to complete this work. Consequently, we withhold recommendation on the personal alarm projects pending receipt of the department's plan for installing the projects and further review of the new cost estimates.

Fire/Life Safety and Ward Remodeling, Atascadero State Hospital.

We recommend deletion of $491,000 for working drawing under Item 4440-301-036(3) and withhold recommendation on $243,000 for preliminary plans to provide fire/life safety improvements and remodeling of patient living areas at Atascadero State Hospital pending receipt of written assurances from the Joint Commission on Accreditation of Hospitals that the proposed project meets accreditation standards and because working drawings should not be funded at this time.

We further recommend that the department report to the Legislature, prior to budget hearings, on the programmatic and/or security arrangements that will be required as a result of the department's remodeling plan for single-bed rooms.

The budget requests $734,000 for preliminary plans ($243,000) and working drawings ($491,000) for a project to upgrade the interiors of patient living areas and to construct building additions for clinical/administrative support functions. The department's estimated future cost of the project is $10.4 million.

According to the department, the proposal will remodel patient sleeping areas, bring them into compliance with hospital licensing and accreditation requirements of the Joint Commission on Accreditation of Hospitals (JCAH). To accomplish this objective, the department plans to alter the 56 square foot single-bed room by removing the lavatory/water closet thereby increasing the *usable* area within each room. The existing eight-bed dormitories would be remodeled into two four-bed rooms of approximately 400 square feet each. The fire/life safety remodeling includes fire-rated corridors and doors, automatic sprinklers, fire exits, wired glass, self-closing hardware, and fire alarms.

Single-Bed Room Remodeling May Not Comply With JCAH Standards. As indicated above, the department proposes to alter the single-bed rooms to *marginally* increase the usable area of the 56 square foot room. The JCAH accreditation standards, however, specify that single-bed rooms contain at least 110 square feet. Thus, the department's proposal would provide private rooms which are approximately one-half of the area required by the JCAH. The department has indicated that they *expect* the JCAH to grant a waiver and allow the single rooms to remain undersized. If the smaller rooms are acceptable, we question the need to spend significant amounts of state funds to remove existing fixtures which result in little effective increase in area.

During the week of November 17, 1986 the JCAH surveyed Atascadero State Hospital for compliance with accreditation standards. The results of the survey are expected to be available in April 1987. Thus, pending receipt of the JCAH determination, it is unclear whether the undersized private rooms proposed by the department will be accredited. On this basis, we withhold recommendation on the $243,000 for preliminary plans.

Finally, we recommend deletion of $491,000 for working drawings because of a new Department of Finance policy of proceeding with projects regardless of the legislatively approved cost. (Please see our analysis under this item, page 681.)

Potential Programmatic/Security Problems. We also note that the proposed configuration of single rooms without lavatory and water closet facilities may present additional programmatic/security problems for the department. Since the private rooms will no longer contain private toilet facilities, staff will be required to escort or supervise the patients to toilet facilities when patients are confined to their rooms. As a consequence, the department may require increased staffing and/or security arrangements. Therefore, we further recommend that, prior to budget hearings, the department report to the Legislature on the programmatic and/or security implications of the proposed modifications.

Fire/Life Safety and Environmental Improvements, Roof Replacement, Building 199 at Napa State Hospital

We recommend deletion of $674,000 for working drawings and withhold recommendation of $333,000 for preliminary plans requested under Item 4440-301-036(10) for Fire/Life Safety and Environmental Improvements to Building 199 at Napa State Hospital (1) pending receipt of the department's review of the project for excessive costs, and (2) because only preliminary plans should be funded.

The budget includes $1 million for preliminary plans ($333,000) and working drawings ($674,000) for a project to remodel Building 199 at Napa State Hospital for Fire/Life Safety and Environmental Improvements. In addition, the project would provide a new roof system for the entire structure.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

Our review of the department's proposal indicates that the estimated cost of the project may be excessive. Building 199 would include 344 intermediate care facility (ICF) beds at a construction cost of $14.5 million. The department's 1987–88 budget request proposes construction funds to remodel the "N" Building at Patton State Hospital. This facility would also include 344 ICF beds following remodeling but at an estimated construction cost of $7.3 million—nearly one-half the estimated cost of Building 199. Consequently, we have asked the department and its construction manager to review the subject project for excessive costs. Pending the results of the department's review, we withhold recommendation on $333,000 for preliminary plans.

We recommend deletion of $491,000 for working drawings because of a new Department of Finance policy of proceeding with projects regardless of the legislatively approved cost. (Please see our analysis on the Office Additions Project below.)

Handicapped Accessibility, Phase II, Patton State Hospital

We withhold recommendation on $267,000 requested under Item 4440-301-036(13) for preliminary plans, working drawings and construction to provide handicapped accessibility at Patton State Hospital pending receipt of a report detailing (1) existing noncomplying conditions at the facility, and (2) measures necessary to achieve compliance.

The budget requests $267,000 to provide handicapped accessibility at 11 buildings throughout the hospital. The modifications would include installation of signs, identification of parking spaces, doorway and toilet modifications, and modifications to elevator controls.

The department's request is based on handicapped accessibility surveys conducted over six years ago. During this time, there may have been modifications to these buildings and to code requirements that would affect compliance. Consequently, we withhold recommendation on the requested amount pending receipt of a report detailing (1) existing noncomplying conditions at the facility, and (2) measures necessary to achieve current accessibility standards. Until this information is provided, we have no basis on which to provide a recommendation on the department's request.

We note that some of the proposed modifications include inexpensive items such as signs and paper cup dispensers which could have been accomplished using operating funds. It is not clear why the department has not already performed this work.

B. Recommended Reductions, Deletions, or Changes

Office Additions at Atascadero Dramatically Increase in Cost

We recommend that the construction cost for the Office Additions at Atascadero State Hospital be reduced by $2,060,000 to reflect the project costs previously approved by the Legislature. (Reduce Item 4440-301-036(2) by $2,060,000.)

The budget includes $5.4 million to construct eight new buildings totaling 32,400 net square feet. The project would provide space for staff offices and support areas. In addition, construction of the proposed office additions would allow space for 128 beds currently used for administrative purposes to be returned to patient use.

Background. The 1985 and 1986 Budget Acts appropriated $200,000 and $285,000 for preliminary plans and working drawings, respectively, for the office additions project. Preliminary plans were to be completed before September 1986. Working drawings were to be started by December 1, 1986 and completed by April 1, 1987.

During hearings on the 1986 Budget Bill, the department proposed to construct nine buildings equivalent to 32,400 gross square feet at an estimated future construction cost of $3.2 million. Adjusted for inflation, this would now be $3,333,000. Even though preliminary plans had not been completed by the time of budget hearings, the administration testified that the cost estimate was accurate and indicated that any postponement in funding would delay the proposed project. Therefore, the administration requested funds for working drawings and construction. Because the department had a long record of being behind schedule in undertaking capital projects and preliminary plans were incomplete, the Legislature did not appropriate construction funds. Instead, the Legislature (1) approved $285,000 in working drawing funds to provide office space equivalent to 32,400 gross square feet at an estimated future cost of $3.2 million and (2) adopted Budget Act language allowing the department to advertise for construction bids (but not award a contract) in advance of an appropriation for construction funds.

Project Cost Balloons. On October 23, 1986, the Director of Finance advised the Legislature that the office additions project, based on completed preliminary plans, was estimated to cost $5.3 million for construction, which was $2.1 million, or 65 percent, more than the project approved by the Legislature. The Director did not indicate why the project had increased in cost. Although the estimated cost was higher than the amount approved by the Legislature, the Director expressed his intention to approve the preliminary plans and allow the department to proceed with working drawings. The Director indicated further that the Legislature would have an opportunity to review the construction costs of this project during hearings on the 1987–88 Budget Bill.

Finally, the Director informed the committees that he intended to apply a principle of proceeding with projects whenever design funds are legally available. The administration apparently has embarked on a new policy to proceed with projects that exceed the cost agreed to by the Legislature when the project was initially approved.

In response to the Director's letter, the Chairman of the Joint Legislative Budget Committee requested, on November 21, 1986, that (1) the Director discontinue the new policy of proceeding with projects regardless of the increased cost, and (2) the office additions project at Atascadero be redesigned in line with the legislatively approved cost. The Chairman also specified that if the cost could not be reduced, then the architect should detail why the cost was higher and what efforts had been made to design the project within the approved budget. At the time this analysis was prepared, the Director had not responded to the Chairman's letter.

In view of the Director's failure to respond to the Chairman's request and the department's lack of explanation for the 65 percent increase in cost, we recommend that the budget amount under Item 4440-301-036(2), be reduced to $3,333,000—for a $2,060,000 savings.

Fire/Life Safety Support Area Renovation Project, Atascadero State Hospital

We recommend a reduction of $46,000 under Item 4440-301-036(4) for a project to renovate fire/life safety conditions in support areas at Atascadero State Hospital because the project is overbudgeted.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

The budget proposes $505,000 for preliminary plans ($11,000), working drawings ($23,000), and construction ($471,000) for a project to renovate the fire/life safety conditions in the support areas at Atascadero State Hospital. The project would provide fire/life safety improvements to the administration building, gymnasium and central distribution services, laundry and alcohol treatment, auditorium and kitchen, occupational therapy, and the school. The department indicates that the support facility environment must be improved in order for the hospital to meet standards for accreditation by the Joint Commission on Accreditation of Hospitals.

The proposed improvements include installation of exit signs, alarm pull stations, additional exit doors, modifications/additions to the automatic sprinkler system, smoke detectors, and other fire/life safety improvements. Our analysis indicates that the proposed work is necessary. The department's cost estimate, however, contains a 20 percent construction contingency. The State Administrative Manual specifies that construction contingencies for renovations be budgeted at 7 percent. Consequently, we recommend that the proposed project be reduced by $46,000 for a new total project cost of $459,000.

Remodel Laundry, Metropolitan State Hospital

We recommend approval of $38,000 requested under Item 4440-301-036(6) for a laundry distribution center and support services renovation project at a reduced future estimated cost of $468,000. (Future savings: $51,000.)

The budget includes $38,000 for preliminary plans ($12,000) and working drawings ($26,000) for a project to remodel the laundry and provide additional space for duplication/copying and storage space for equipment and supplies. The future estimated cost of the project is $519,000. The proposal, however, contains a construction contingency of 20 percent. The State Administrative Manual specifies that construction contingencies be budgeted at 7 percent for renovation projects. Consequently, the future estimated cost of this project should be reduced by $51,000 for a future estimated cost of $468,000.

The project would remodel the existing laundry to provide physically separate areas for sorting clean and soiled laundry. In addition, the remodeling would provide space for central duplicating, the printing shop and additional storage space.

Our review of the department's proposal indicates that the project is warranted. Separate areas for soiled and clean laundry is a JCAH accreditation specification and a licensing requirement. Our visit to the duplicating area and print shop at the hospital revealed a need for greater space for this function. It is appropriate that this function be moved to the existing laundry distribution center. On this basis, we recommend approval of the reduced amount.

Fire/Life Safety and Environmental Improvements, "N" Building, at Patton State Hospital

We recommend deletion of $1.2 million requested for Fire/Life Safety and Environmental Improvements, "N" Building, at Patton State Hospital to reflect the project and cost previously approved by the Legislature (Reduce Item 4440-301-036(11), by $1.2 million).

The budget proposes $7.3 million for construction of fire/life safety and environmental improvements at the "N" Building at Patton State Hospital. The project also includes porch enclosures, roof repairs, and a heating, ventilation, and air-conditioning system.

In the 1985 Budget Act, the Legislature appropriated $405,000 for preliminary plans ($21,000) and working drawings ($384,000) for this project. In the *Supplemental Report of the 1985 Budget Act,* the Legislature adopted language specifying that the future cost of construction be $5.5 million. The budget requests $1.4 million (24 percent) more than the amount previously recognized by the Legislature.

On October 9, 1986, pursuant to Section 13332.11 of the Government Code, the Director of Finance advised the Legislature that the total project cost of the "N" Building would increase by $104,000 (1.7 percent) as a result of additional work. The Director's letter indicated that fire/life safety deficiencies in the central core areas which were not included in the original scope of the project were now required by the State Fire Marshal.

On October 28, 1986, the Department of Finance sent a letter to the Legislature certifying the scope/cost of projects submitted to the Public Works Board and indicated that the project cost had increased by $1.2 million, or 21 percent. The DOF letter offered no explanation of why the cost increased by over $1 million in just 19 days. The State Public Works Board, in its October 31, 1986 meeting, approved the preliminary plans at the higher estimated cost. Working drawings for this project have begun and are scheduled to be completed by September 1, 1987.

At the time this analysis was prepared, neither the department nor DOF has been able to document the $1.4 million cost increase other than the costs associated with the central core areas ($104,000) and asbestos removal ($100,000).

Under the circumstances, we recommend that the amount requested under Item 4440-301-036(11) be reduced to $6,062,000, a savings of $1.2 million.

Fire/Life Safety and Environmental Improvements, 30 Building, Patton State Hospital

We recommend approval of $206,000 requested for preliminary plans for a project to perform Fire/Life Safety and Environmental Improvements to Building 30 at Patton State Hospital.

The budget includes $206,000 to prepare preliminary plans for fire/life safety and environmental improvements to the 30 Building at Patton State Hospital. The project would remodel the existing 30 Building for code and licensing deficiencies and would result in 344 beds, following completion. The department's future estimated cost of the project is $9.5 million. The future estimated cost of the project, however, contains a construction contingency of 20 percent, which exceeds the State Administrative Manual guideline of 7 percent for renovations projects. Thus, the estimated future project cost, including working drawings, should be $8.6 million, a reduction of $865,000.

Our review indicates that the proposed project is warranted. Consequently, we recommend approval of preliminary plans for the project at a revised future cost of $8.6 million.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

C. Minor Capital Outlay

The budget includes $732,000 for ten minor capital outlay projects. Table 2 lists these projects along with our recommendations on each.

Our analysis indicates that the projects are justified and we recommend approval.

Table 2

1987–88 Minor Capital Outlay Projects and the Legislative Analyst's Recommendations (dollars in thousands)

Project	*State Hospital*	*Budget Bill Amount*	*Analyst's Recommendation*
Improve Security System	Atascadero	$158	$158
Install Personal Alarm System, U Building	Patton	116	116
Handicapped Accessibility, Phase III	Napa	29	29
Handicapped Accessibility, Phase III	Patton	29	29
Provide Bridge	Atascadero	101	101
Griddle Extinguishers	Metropolitan	27	27
Enclose Patios on Wards 2 & 3	Atascadero	116	116
Enclose Landing and Stairwells	Napa	73	73
Install Acoustical Ceiling	Napa	70	70
Provide Sun Shelter	Atascadero	13	13
Totals		$732	$732

Supplemental Report Language

For purpose of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

Health and Welfare Agency
EMPLOYMENT DEVELOPMENT DEPARTMENT

Item 5100 from the General Fund and various funds — Budget p. HW 118

Requested 1987–88	$134,024,000
Estimated 1986–87	186,526,000
Actual 1985–86	137,559,000
Requested decrease $52,502,000 (−28.1 percent)	
Total recommended reduction	1,000,000
Net reduction in transfer to General Fund	14,000,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5100-001-001—EDD, support	General	$29,296,000
5100-001-184—EDD, support	Benefit Audit	6,677,000
5100-001-185—EDD, support	Contingent	21,264,000
5100-001-514—EDD, support	Employment Training	60,566,000
5100-001-588—EDD, support	Unemployment Compensation Disability Insurance	(64,635,000)
5100-001-869—EDD, support	Consolidated Work Program	(52,271,000)
5100-001-870—EDD, support	Unemployment Administration	(316,369,000)

5100-001-871—EDD, support	Unemployment	(1,493,000)
5100-001-908—EDD, support	School Employees	(495,000)
5100-011-890—EDD, support	Federal Trust	(316,369,000)
5100-016-890—EDD, support	Federal Trust	(1,493,00)
5100-021-890—EDD, support	Federal Trust	(52,271,000)
5100-101-588—EDD, local assistance	Unemployment Compensation Disability Insurance	(1,364,590,000)
5100-101-869—EDD, local assistance	Consolidated Work Program	(215,577,000)
5100-101-870—EDD, local assistance	Unemployment Administration	(2,910,000)
5100-101-871—EDD, local assistance	Unemployment	(2,151,316,000)
5100-101-890—EDD, local assistance	Federal Trust	(215,577,000)
5100-101-908—EDD, local assistance	School Employees	(16,990,000)
5100-111-890—EDD, local assistance	Federal Trust	(2,154,226,000)
Reimbursements	—	16,221,000
Total		$134,024,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Targeted Jobs Tax Credit (TJTC) Administrative Support. Recommend that prior to budget hearings, EDD advise the fiscal committees on (a) the impact of absorbing this workload in the Job Service program and (b) its efforts to secure additional funds for administering TJTC. 690
2. Job Service (JS) Discretionary Funds. Recommend that prior to budget hearings, EDD submit to the fiscal committees an expenditure plan for $4.2 million in JS discretionary funds. 691
3. School Employees Fund (SEF) Contribution Rate. Recommend that prior to budget hearings, (a) EDD inform the fiscal committees of the SEF contribution rate for 1987–88 and (b) Department of Finance (DOF) adjust the EDD and State Department of Education budgets accordingly. 691
4. JS Discretionary Funds for the Greater Avenues for Independence (GAIN) Program. Recommend increase of $1,277,000 in EDD's reimbursements from DSS and transfer of $1,277,000 in JS discretionary funds to GAIN budget. 692
5. Repayment of Reed Act Funds. Recommend reduction of $1 million in Contingent Fund appropriation and increase of $1 million in transfer to General Fund. 692
6. Local Entity Unemployment Insurance (UI) Costs. Recommend (a) enactment of urgency legislation reverting $69 million appropriated from the General Fund to pay local UI costs and (b) reduction of $69 million from the UI Fund that will not be transferred to the General Fund. 693
7. Employment Training Panel (ETP). Recommend:
   (a) The panel establish written priorities and criteria for allocating training funds. 697
   (b) Adoption of supplemental report language directing the panel to submit a plan for improving its disencumbrance procedures. 697
   (c) Adoption of supplemental report language directing the panel to submit a plan for improving the performance of ETP projects. 699

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

(d) The panel require employer certification that training would not take place without ETP funds. 704

(e) The panel advise the fiscal committees prior to budget hearings, on its plans to improve its management information system. 705

8. Employment Training Fund (ETF) Interest. Recommend deletion of Budget Bill language proposing to transfer ETF interest earnings in 1987–88 to the General Fund. 706

9. Job Training Partnership Act (JTPA). Recommend: 706

(a) Adoption of supplemental report language directing development of standard training definitions and reporting procedures.

(b) Adoption of supplemental report language directing development of a standard definition of "placement."

(c) Adoption of supplemental report language directing submittal of a plan for improving the performance standard and incentive award system.

GENERAL PROGRAM STATEMENT

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

In addition, the department collects taxes and pays benefits under the UI and DI programs. The department collects from employers (1) their unemployment insurance contributions, (2) the Employment Training Tax, and (3) employee contributions for DI. It also collects personal income tax withholdings. In addition, it pays UI and DI benefits to eligible claimants.

The department is authorized 9,983.3 personnel-years (PYs) in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling $134 million from various *state* funds for support of EDD in 1987–88. This is a decrease of $52.5 million, or 28 percent, from estimated current-year expenditures. This reduction is primarily due to two factors. First, the current-year budget reflects $36 million in Employment Training Panel (ETP) funds which were carried over from the prior year. Based on past experience, it is likely that some amount of ETP funds will be carried forward from the current year to the budget year. These funds, however, will not show up until the 1988–89 Governor's Budget. Second, reimbursements to EDD from the Department of Social Services are proposed to decrease by $15 million between 1986–87 and 1987–88. This reduction reflects a shift in the provision of employment services to welfare recipients from the state to the counties due to implementation of the Greater Avenues for Independence (GAIN) program.

General Fund Request

The budget proposes an appropriation of $29.3 million from the General Fund to support EDD in 1987–88. This represents a net decrease of $432,000, or 1.5 percent, below estimated current-year expenditures. Of this reduction, $296,000 is a Special Adjustment which represents approximately 1 percent of the General Fund support. Table 1 identifies the significant changes in General Fund expenditure levels proposed for 1987–88.

The expenditure tables which follow have not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

Table 1
Employment Development Department
Proposed 1987–88 General Fund Budget Changes
(dollars in thousands)

	Adjustment	*Totals*
1986–87 expenditures (revised)	—	$29,728
A. Baseline changes		
1. Retirement rate reduction and Board of Control claim	$4	
2. One-time funding for federal funds study (Ch 1027/85)	–75	
3. One-time carry-over of Youth Services funds (Ch 1043/82)	–73	
4. Deficiency to reinstate California Jobs Tax Credit (CJTC) program	–89	
Subtotal		–$233
B. Program changes		
1. Optical character reader efficiencies	–36	
2. Reinstatement of CJTC	133	
3. Administrative reduction of 1 percent	–296	
Subtotal		–$199
1987–88 expenditures (proposed)		$29,296
Change from 1986–87:		
Amount		–$432
Percent		–1.5%

Total Revenues and Expenditures

Table 2 shows the department's total revenues and expenditures, by program. As the table shows, the budget projects total expenditures of $4.3 billion in 1987–88. This is a decrease of $191 million, or 4.2 percent, below the current-year level.

Table 2
Employment Development Department
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Actual 1985–86	*Est. 1986–87*	*Prop. 1987–88*	*Change from 1986–87 to 1987–88*	
				Amount	*Percent*
Employment Programs					
Employment Service	$101,922	$111,514	$105,582	–$5,932	–5.3%
Work Incentive and Related	35,724	30,561	15,992	–14,569	–47.7
Food Stamp Recipients	1,981	554	—	–554	–100.0
Service Centers	6,442	7,099	6,999 [a]	–100	–1.4
Job Agent	2,685	3,022	3,021	–1	–0.0
Youth Employment Services	698	73	—	–73	–100.0
Employment Training Panel	43,298	94,816	58,764	–36,052	–38.0

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Job Training Partnership Act	(285,280)	(455,803)	(267,848)	(−$187,955)	(−41.2)
Administrative Cost Pool	8,095	10,333	9,683	−650	−6.3
Incentive Awards & Technical Assistance	7,771	23,842	10,714	−13,128	−55.1
Older Workers	6,280	10,620	5,688	−4,932	−46.4
Educational Linkages	15,603	26,362	15,168	−11,194	−42.5
Special Local Projects	2,062	4,751	326	−4,425	−93.1
Displaced Workers	13,660	34,792	9,892	−24,900	−71.6
Veteran's Programs	—	800	800	0	0.0
Adult and Youth Training	149,994	209,461	147,885	−61,576	−29.4
Summer Youth Program	81,815	134,842	67,692	−67,150	−49.8
Totals, Employment Programs	$478,030	$703,442	$458,206	−$245,236	−34.9%
Unemployment Insurance (UI)	($2,394,068)	($2,385,112)	($2,387,872)	($2,760)	(0.1)
Administration	243,484	239,541	233,646	−5,895	−2.5
Benefits	2,150,584	2,145,571	2,154,226	8,655	0.4
Disability Insurance (DI)	(1,280,769)	(1,380,548)	(1,429,863)	(49,315)	(3.6)
Administration	58,043	60,748	65,273	4,525	7.4
Benefits	1,222,726	1,319,800	1,364,590	44,790	3.4
Personal Income Tax	20,923	21,799	22,385	586	2.7
Employment Training Tax	(7,106)	(28,082)	(10,902)	(−17,180)	(−61.2)
Collection	1,711	1,782	1,802	20	1.1
Employer Refunds	(5,395)	(26,300)	(9,100)	(−17,200)	(−65.4)
General Administration	(33,155)	(34,070)	(35,967)	(1,897)	(5.6)
Distributed	(30,597)	(31,537)	(31,415)	(−122)	(−0.4)
Undistributed	2,558	2,533	4,552	2,019	79.7
Total Budget	$4,178,059	$4,495,216	$4,304,680	−$190,536	−4.2%
(Program)	(804,749)	(1,029,845)	(785,864)	(−243,981)	(−23.7)
(UI and DI Benefits)	(3,373,310)	(3,465,371)	(3,518,816)	(53,445)	(1.5)
Revenue					
General Fund	*$44,654*	*$29,728*	*$29,296*	*−$432*	*−1.5%*
Benefit Audit Fund	*2,482*	*4,209*	*6,677*	*2,468*	*58.6*
EDD Contingent Fund	*19,510*	*24,647*	*22,264*	*−2,383*	*−9.7*
Employment Training Fund	*50,404*	*122,898*	*69,666*	*−53,232*	*−43.3*
Disability Fund	*1,280,203*	*1,379,910*	*1,429,225*	*49,315*	*3.6*
Consolidated Work Program Fund	*285,280*	*455,803*	*267,848*	*−187,955*	*−41.2*
Unemployment Administration Fund	*325,544*	*326,260*	*319,279*	*−6,981*	*−2.1*
Unemployment Fund—Federal	*2,116,511*	*2,103,771*	*2,126,719*	*22,948*	*1.1*
School Employees Fund	*16,357*	*16,646*	*17,485*	*839*	*5.0*
Local Public Entity Fund	*766*	—	—	—	—
Federal Trust Fund	*(2,727,335)*	*(2,885,834)*	*(2,713,846)*	*(−171,988)*	*(−6.0)*
Reimbursements	*36,348*	*31,344*	*16,221*	*−15,123*	*−48.2*
Totals	$4,178,059	$4,495,216	$4,304,680	−$190,536	−4.2%

[a] Includes proportionate 1 percent reduction for special adjustment. Actual allocation of reduction may change.

Of the $4.3 billion, $786 million (18 percent) is for various programs and administration, and $3.5 billion is for the payment of UI and DI benefits.

The $786 million proposed for programs and administration is $244 million, or 24 percent, below current-year expenditures. This reduction is due primarily to (1) a $36 million reduction in funds available for ETP because funds were carried over from the prior year to the current year and (2) a $188 million reduction in funds available for the Job Training Partnership Act (JTPA) because the current-year budget includes $129 million in local assistance funds reappropriated from the prior year and $59 million in state program funds carried over into the current-year. A comparable level of JTPA funds will likely be carried forward into the budget year.

ANALYSIS AND RECOMMENDATIONS

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

- An increase of 17.3 PYs in the ETP program. These PYs will be supported by a redirection of $700,000 from ETP marketing and outreach funds and $341,000 from ETP training funds.
- An increase of $2,729,000 for second-year funding of Job Service Automation Phase II.
- A reduction of nine PYs and an increase of $3,891,000 to support further automation of the DI program.
- A reduction of $3,579,000 and 128 PYs due to Tax Accounting System (TAS) automation efficiencies. The funds will be used to support ongoing automation costs.
- An increase of 98.8 PYs and $3,694,000 to enhance recovery of fraudulent UI payments.

DEPARTMENTAL PROGRAMS AND SUPPORT

Proposed Staffing Changes Reflect a Variety of Factors

The budget proposes a net reduction of 126.2 positions in 1987–88. The department proposes to eliminate 524.5 positions, all but one being temporary help positions. These reductions are partially offset by the proposed addition of 398.3 positions.

Table 3 shows 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. In the case of automation, increased operating expenses cost more than the savings from staff reductions. Table 4 shows how the staffing changes are distributed among EDD's programs.

Table 3
Employment Development Department
Proposed Position Changes
and Fiscal Effect
1986–87 to 1987–88
(dollars in thousands)

	Positions			*Net Fiscal Effect*			
Reason for Change	*Added*	*Reduced*	*Net*	*Salaries*	*Benefits*	*OE&E*	*Total*
Automation efficiencies..	—	−252.5	−252.5	−$5,096	−$1,618	$14,714	$8,000
Program change and legislative mandates....	20.3	−271.0	−250.7	−8,526	−2,803	−917	−12,246
Workload changes............	378.0	−1.0	377.0	9,255	2,935	327	12,517
Totals	398.3	−524.5	−126.2	−$4,367	−$1,486	$13,854	$8,271

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Table 4
Employment Development Department
Proposed Position Changes by Program
1986–87 to 1987–88

Reason for Change	*Unemployment Insurance*	*Disability Insurance*	*Job Service*	*Tax Collections*	*Other Employment Programs*	*Total*
Automation efficiencies	−192.6	−13.7	—	−45.1	−1.1	−252.5
Program change and legislative mandates	—	—	—	—	−250.7	−250.7
Workload changes	189.0	46.5	−1.0	124.1	18.4	377.0
Totals	−3.6	32.8	−1.0	79.0	−233.4	−126.2

The major causes for position changes in each category are discussed below:

- ***Automation.*** The department proposes to reduce its staff by 252.5 positions in order to reflect staff savings created by automation. This reduction frees up $6.7 million. However, increased automation costs will total $14.7 million, resulting in a net cost of $8 million. The largest position reductions occur in the UI and tax programs, while the largest automation costs occur in the DI and Job Service (JS) programs.
- ***Program Changes and Legislative Mandates.*** The budget proposes a net reduction of 250.7 positions due to program changes and legislative mandates. The major staff reduction is in the WIN Demonstration (WIN Demo) program and the Employment Preparation Program (EPP) as a result of the counties' implementation of GAIN.
- ***Workload Changes.*** The department proposes to add a net of 377 positions due to increased workload. The largest workload increases are in the UI, DI, and tax programs as a result of growth in the number of employers and employees in the state and enhanced recovery of fraudulent UI payments.

No Administrative Support Budgeted for Federal Tax Credit Program

We recommend that prior to budget hearings, the EDD advise the fiscal committees on the impact of absorbing the Targeted Jobs Tax Credit (TJTC) program within existing JS resources and on its efforts to secure other funds for this purpose.

While the department proposes to resume administration of the TJTC program starting October 1, 1986, the budget does not contain funding to administer this program in 1987–88.

The TJTC is a federal tax credit available to employers who hire specified individuals who traditionally have faced barriers to employment, including economically disadvantaged youth, handicapped persons, and AFDC recipients. The EDD's responsibilities for administering TJTC include (1) certifying that individuals are eligible for the credit, (2) preparing vouchers needed by employers in order to claim the credit, and (3) reporting to the federal government on the individuals certified eligible for the program.

Under federal law, the TJTC program expired December 31, 1985. The federal Tax Reform Act of 1986, signed by the President on October 22, 1986 reinstated the TJTC program retroactively from January 1, 1986 through December 31, 1988. However, Congress did not provide the states with additional funding to administer the program. Instead, Congress has authorized the states to administer TJTC with Wagner Peyser Job Service funds.

In the current year, the department will use $1.7 million in excess JS funds to support 40.5 limited-term PYs needed to reestablish the TJTC. These JS funds are available due to (1) prior-year savings, (2) additional, unbudgeted federal funds provided after the enactment of the 1986 Budget Act, and (3) reduced retirement benefit costs.

To date, the EDD has not received federal funds to administer TJTC in the budget year. Thus, the department advises that it intends to shift administration of TJTC into the JS program, requiring JS staff to absorb the additional workload. Based on the department's workload estimates for the current year, we estimate that administration of TJTC will require 35 PYs and approximately $1.2 million.

Because EDD receives a fixed amount of federal funds for JS, it will have to absorb administration of the TJTC program within its limited JS resources. The department, however, has not been able to explain how it will absorb this increased workload or what impact this will have on the level of JS services it provides to employers and job seekers.

In light of this uncertainty, we recommend that prior to budget hearings, EDD advise the fiscal committees how it intends to absorb the additional workload for administering the TJTC program, what impact this will have on the JS program, and what efforts it is making to secure additional funds to administer the TJTC 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 JS 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 JS programs. The budget proposes $4.2 million for discretionary activities in 1987–88. The department proposes to use an additional $3.7 million in JS 10 percent funds to support WIN Demo and EPP.

The department has not been able to provide specific plans for use of the $4.2 million in 10 percent discretionary funds in 1987–88. We believe the Legislature should have an opportunity to review the proposed use of discretionary funds in 1987–88. 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 and the guidelines used in developing the plan.

Administration Needs to Reconcile Budgets for the School Employees Fund Contributions and Revenues

We recommend that prior to budget hearings, the EDD inform the fiscal committees of the contribution rate for the School Employees Fund for 1987–88 and that the Department of Finance adjust the EDD and State Department of Education budgets accordingly.

The School Employees Fund (SEF) is a special fund in the State Treas-

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ury which receives contributions from school district employers in order to pay the unemployment claims of former school employees.

The EDD's budget assumes that the school's contribution rate to the SEF will be 0.22 percent of total school wages. The State Department of Education's (SDE) budget, however, assumes that the school's contribution rate will be 0.1 percent. Consequently, there is a significant discrepancy between the amount budgeted for SEF contributions from the schools and the amount assumed for SEF revenues in EDD's budget.

Chapter 754, Statutes of 1986, gave the Director of EDD authority to lower the SEF contribution rate when he determines that there is an excess balance in the fund. Based on discussions with the EDD staff, we understand that the Director is considering reducing the rate to 0.1 percent. If the Director takes no action, the rate would be 0.22 percent, based on the existing rate-setting formula.

If the Director does not use his authority to reduce the SEF contribution rate to 0.1 percent, the schools will not have adequate funds budgeted for SEF contributions.

In light of this uncertainty, we recommend that prior to budget hearings, EDD inform the Legislature of the SEF contribution rate for 1987–88. We further recommend that the Department of Finance adjust the EDD and SDE budgets accordingly.

FUNDING ISSUES

Funding Shift Would Maximize Funds Available for GAIN

We recommend that the Legislature increase EDD's reimbursements from the Department of Social Services by $1,277,000 and transfer a like amount of JS 10-percent funds to the GAIN budget.

The budget proposes to use $3,676,000 in JS 10-percent discretionary funds to supplement funding for the WIN Demo program and the EPP. This is the same amount as used in the current year for these purposes. These programs provide employment services to AFDC recipients.

We do not believe this proposal maximizes the amount of (1) federal funds or (2) funds available for GAIN. Our analysis indicates that both purposes can be achieved, without adverse impact on EDD, by the following funding shift:

- Transfer $1,277,000 in JS 10-percent funds—which EDD plans to use for costs which are Title IV-A reimbursable—to the GAIN budget.
- Increase EDD's reimbursements from DSS by a like amount—consisting of $639,000 from the General Fund and $639,000 from federal Title IV-A funds.

Contingent Fund is Inappropriate Source for Reed Act Repayment

We recommend reducing EDD's Contingent Fund appropriation by $1 million and increasing the transfer from this fund to the General Fund by $1 million in order to reflect elimination of Reed Act repayment from the Contingent Fund. (Reduce Item 5100-001-185 by $1 million.)

The budget proposes to appropriate $1 million from the Contingent Fund in order to repay federal Reed Act funds the department has used for various capital purchases. 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 administration.

Under federal law, EDD may repay Reed Act funds which it "borrows" (without interest) for purchase of capital assets. The repayment, thus, serves to replenish funds available to the department for future projects. Through 1986–87, the department has used $17.3 million from the Reed Act for capital purchases. Of this amount, EDD has repaid $9.2 million, leaving $8.1 million to be repaid. The department advises that since 1985–86, it has distributed the cost of Reed Act repayment among all of its funding sources.

The Legislature adopted language in the *Supplemental Report of the 1986 Budget Act* which required EDD to (1) repay Reed Act funds (used for automation) and (2) submit a proposal, by October 1, 1986 identifying a repayment plan.

We have reviewed the department's proposal and conclude that its plan to repay the Reed Act from the Contingent Fund is inappropriate. This is because appropriating $1 million from the Contingent Fund to repay the Reed Act funds reduces by a like amount the funds which would otherwise be transferred to the General Fund. The 1987 Budget Bill (Item 5100-001-185) provides that any excess balance in the Contingent Fund above $1 million shall be transferred to the General Fund. It should be noted that funds transferred from the Contingent Fund to the General Fund are exempt from the state appropriations limit.

Furthermore, in previous discussions and correspondence with EDD, the department consistently indicated that borrowed funds would be repaid from the *UI program*. In the case of funds used for automation, the department indicated that it intended to repay the Reed Act with savings generated by the automation activities.

We agree that the Reed Act is a valuable source of funding for EDD automation and other projects and therefore should be replenished. It should not be replenished, however, at the expense of reducing the Contingent Fund, which in turn would reduce the amount of funds which can be transferred to the General Fund. Therefore, we recommend that the department develop a proposal which would repay the Reed Act funds through some source other than the Contingent Fund. This would give the Legislature more flexibility to fund its priorities with Contingent Fund and General Fund monies. Adoption of this recommendation will make an additional $1 million available in the Contingent Fund for transfer to the General Fund. Consequently, we recommend that the Contingent Fund appropriation be reduced by $1 million and a like amount transferred to the General Fund.

State Payment of Local Government UI Costs Not Appropriate

We recommend (1) the enactment of urgency legislation reverting $69 million appropriated from the General Fund to reimburse local entity UI costs and (2) reduction of the UI Fund appropriation by $69 million because the state is not required to pay these costs. (Reduce Items 5100-101-871 and 5100-111-890 by $69 million.)

In 1978, the Legislature required that all local public entities—city and county governments, as well as special districts—provide coverage to their employees under the UI program. The Legislature took this action in response to a federal law which gave the state no reasonable alternative to requiring such coverage. The California Court of Appeal (*City of Sacramento v. State of California*) eventually ruled that the cost of providing UI benefits to local entity employees was a state mandated cost for which the state must reimburse local public entities.

In response to the court decision, the Legislature appropriated a total

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of $69 million from the General Fund to pay these costs. This amount consists of (1) $44 million appropriated by Ch 1217/85 for costs incurred in 1984–85 and 1985–86 and (2) $25 million appropriated by the 1986 Budget Act for the 1986–87 UI costs.

Budget Proposal. The 1987 Budget Bill (Item 8885-495) proposes to revert the undisbursed balance of the $44 million as of June 30, 1987. The undisbursed balance of the remaining $25 million also will revert to the General Fund as of June 30, 1987. The Controller's staff advises that due to a processing backlog, it has not yet disbursed any of the funds appropriated in Chapter 1217 or the 1986 Budget Act.

The budget further proposes to transfer $69 million from the UI Fund to the General Fund in order to reimburse local governmental entities for the cost of providing UI coverage to their employees between 1984–85 and 1986–87. The budget does not propose any General Fund appropriation to reimburse local entities for their UI costs in 1987–88.

The budget proposal raises two issues for the Legislature. First, is the state required to pay the UI costs of local entities? Second, should the state transfer $69 million from the UI Fund to pay the UI costs of local entities?

State General Fund Is Not Required to Reimburse Local UI Costs. Legislative Counsel advises that, as a result of a recent California Supreme Court decision (*County of Los Angeles v. State of California*) dated January 2, 1987, the state is *not* required to pay the costs of providing UI benefits to employees of local entities. Consequently, we recommend the enactment of urgency legislation that reverts the $69 million to the General Fund. We make this recommendation because the Legislature appropriated these funds to comply with a court order which was subsequently overturned. Moreover, in the absence of further Legislative direction, the Controller still has an obligation to disburse these funds. By reverting these funds, the Legislature will have $69 million available to support its priorities. It also should be noted that if the $69 million is reverted to the General Fund, its subsequent appropriation would not be subject to the state's appropriations limit.

Proposed UI Fund Transfer is Inappropriate. We have two concerns with the administration's proposal to transfer $69 million from the UI Fund to the General Fund in order to cover local government UI costs. First, Legislative Counsel advises that the proposed transfer would violate federal law governing the use of UI Fund monies. Second, the transfer violates the general principle of the UI system that employers are charged based on the degree to which *their* former employees draw UI benefits. Specifically, the administration's proposal would result in private employers paying the UI costs of public employers.

In view of the above, we recommend that the Legislature (1) enact urgency legislation reverting the $69 million previously appropriated from the General Fund to pay local UI costs and (2) reduce the UI Fund appropriation by $69 million.

REVIEW OF THE EMPLOYMENT TRAINING PANEL PROGRAM

The Employment Training Panel (ETP) program was established in 1982 and provides employment training to workers covered under the Unemployment Insurance (UI) program. Specifically, ETP provides training to individuals who are:

- Unemployed and receiving UI benefits.

- Unemployed but have exhausted UI benefits within the past year.
- Employed but likely to be displaced and become UI recipients.

The purpose of the ETP program is to (1) meet employers' needs for skilled workers by providing skill training to individuals covered by the UI system, (2) reduce employers' UI costs, and (3) encourage creation of new jobs in California.

The ETP program is supported by the Employment Training Tax (ETT) which is a 0.1 percent payroll tax paid by employers maintaining a positive balance in the UI Fund. These are employers who have paid more into the UI Fund over time than their laid-off employees have collected in unemployment benefits.

Under current law, up to $55 million in ETT revenues are deposited in the Employment Training Fund (ETF) annually. The panel may allocate these funds to (1) pay contractors for training costs and reasonable administrative costs and (2) cover the administrative costs of the ETP program. The panel's administrative costs, excluding EDD's cost to collect the ETT, are limited to 15 percent of ETT collections. Any ETT collections above $55 million revert to the UI Fund. In 1986–87, $6.3 million in excess ETT collections were deposited in the UI Fund. The budget proposes depositing $9.1 million in excess ETT collections in the UI Fund in 1987–88.

The Employment Training Panel allocates training funds through contracts with employers or training agencies. Under these contracts, the panel reimburses training providers at a fixed amount per trainee, *provided* the trainee remains employed with a single employer in a job for which he or she was trained for 90 consecutive days after training. Generally, the panel requires that ETP trainees be placed in jobs which pay at least $5 per hour, although it makes some exceptions for jobs in rural areas.

The panel consists of seven members appointed by the Governor and the Legislature. The panel has a staff of 57.4 personnel-years (47.1 positions) in 1986–87. The budget proposes to increase ETP staff by 17.3 personnel-years in 1987–88. We recommend approval of this proposal.

Amount of Funds Available for Expenditure has Grown

Table 5 shows actual ETP revenues, expenditures, and encumbrances through 1985–86 and for the first half of 1986–87. Although state law limits the panel's annual appropriation to $55 million of ETT collections, the table shows that the total amount of funds available annually for expenditure is significantly higher. For example, in 1986–87 the funds available for expenditure totaled $96.7 million—an increase of 24 percent over the funds available in 1983–84.

Table 5
Employment Training Panel
Revenues, Expenditures, and Encumbrances
1983–84 through 1986–87
(dollars in thousands)

Receipts	*1983–84*	*1984–85*	*1985–86*	*1986–87*	*Total*
ETF appropriation	$55,000	$55,000	$60,714[a]	$61,437[b]	$232,151
Carry-over from prior year	23,141	24,924	32,305	35,230	NA
(Interest earnings from prior year)	(352)	(4,871)	(9,830)	(12,896)	28,039
Total available for expenditure	$78,141	$79,924	$93,019	$96,667	$248,039 [c]

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Outlays					
Administration	$3,105	$4,580	$6,333	$7,483	$21,501
Training projects—					
Encumbrances	50,833	58,388	66,135	23,822[d]	199,178
Expenditures[e]	16,997	14,409	6,940	103[d]	39,328[f]
Carry-over to next year[g]	24,924	32,305	55,230[h]	unknown	NA
Transfer to UI Fund pursuant to Ch 1206/86	—	—	−20,000	—	NA

a. 1985–86 appropriation includes $5.5 million in estimated interest earnings for first half of 1985–86.
b. 1986–87 appropriation includes $6.4 million in estimated interest earnings for the first half of 1986–87.
c. Includes only actual interest earnings.
d. Encumbrances and expenditures as of December 1, 1986.
e. Expenditures as of November 30, 1986.
f. Total expenditures include $879,000 expended in 1982–83.
g. Carry-over includes disencumbered and unencumbered funds in addition to unexpended administrative funds and interest earnings.
h. Carry-over from 1985–86 includes $7.4 million in accrued interest earnings for second half of 1985–86.

Based on our review, we conclude that the amount of money available for expenditure by the ETP has increased over time due mainly to (1) interest earned on the large unexpended balance in the ETF and (2) large disencumbrances from prior years.

- ***High Balance in the ETF Earns Substantial Interest.*** In addition to an annual appropriation of $55 million from the ETF, the panel has available for expenditure interest earned on the ETF balance. Through 1985–86, the panel earned $28 million in interest. These earnings are included in the carry-over from the year in which they are earned and are available for expenditure in future years. In addition, beginning in 1985–86, the Budget Act has appropriated ETP's estimated interest earnings for the first half of a fiscal year along with the panel's annual budget appropriation for that year.
- ***ETP Projects Experience Large Disencumbrances.*** Under the ETP program, funds are disencumbered—and therefore unspent—when (1) a contractor is not able to place a trainee in specified employment for 90 days or (2) a project is terminated and no payment is made to the contractor. Table 6 shows encumbrances and disencumbrances for 1982–83 through 1985–86. As of December 1986, 19 percent of the funds encumbered by the panel was subsequently returned unspent to the ETF. Because disencumbrances are continually adjusted upward as more projects are closed out, Table 6 understates the total disencumbrances which are likely to occur during this period, particularly for 1985–86.

Table 6

Encumbrances and Disencumbrances
1982–83 through 1985–86
(dollars in thousands)

Training Funds	*1982–83*	*1983–84*	*1984–85*	*1985–86*	*Total*
Encumbered	$3,774	$50,833	$58,388	$66,135	$179,130
Disencumbered[a]	−2,896	−10,540	−20,000	−394	−33,829
Disencumbrance rate	76.7%	20.7%	34.3%	0.6%	18.9%

[a] Includes funds disencumbered as of December 5, 1986. Disencumbrances will continue to grow as projects funded with encumbrances from 1983–84 through 1985–86 are closed out.

ETP Encumbrances and Expenditures are Increasing

Although the panel has had difficulty spending its training funds thus far, our review indicates that the rate at which the panel is encumbering and spending training funds is accelerating. For example, in the first half of 1986–87, the panel encumbered twice as much money as it encumbered during the first half of 1985–86. Similarly, the panel actually spent twice as much in the first half of 1986–87 as it spent in the first half of 1985–86. If the panel continues to approve training projects and encumber funds at approximately the same rate as it has in the first part of the current year, we estimate that it could encumber most of the $89.2 million available for training by June 30, 1987.

Panel Needs to Establish Priorities for Funding Training Contracts

We recommend that the panel establish written priorities and criteria for allocating training funds. These priorities and criteria should be published with the panel's agenda materials and submitted to the Legislature by October 1, 1987.

To date, the panel has had more money available than it could spend. Such circumstances put pressure on the panel to fund as much training as possible, with little need to focus on training those individuals who benefit the most from such training. However, if encumbrances continue at the rate described above, the panel may soon reach a point where training proposals exceed the funds available for training.

We believe the panel is ill-prepared for dealing with the eventuality of scarce resources. The panel does not have clearly defined priorities for the kinds of training it will fund. Moreover, the panel has not developed criteria for ranking and choosing training proposals according to its priorities and the priorities established by the Legislature. For example, the panel has not decided whether, in a situation of scarcity it would (1) concentrate on training the unemployed, (2) concentrate on training the potentially displaced, or (3) attempt to maintain a balance between these groups. In addition, the panel could benefit by establishing written priorities in other areas. For example, the panel might give first priority to projects in which employers supplement the ETP funds they receive for a training project with some amount of their own resources.

Consequently, we recommend that the panel establish written priorities for allocating training funds and criteria for selecting training proposals. The priorities should be consistent with the intent of the Legislature, as expressed in ETP's enabling legislation. We further recommend that these priorities and criteria be published with the panel's monthly agenda materials and submitted to the Legislature by October 1, 1987.

ETP Is Not Maximizing the Effectiveness of Its Training Funds

We recommend that the Legislature adopt supplemental report language directing the panel to submit, by October 1, 1987 a plan for improving its procedures for disencumbering training funds.

We have reviewed the panel's procedures for disencumbering training funds. Based on our review, we conclude that the panel could use its training funds more effectively by improving its procedures for disencumbering training funds, as follows.

The panel could expedite its closure of prior-year contracts which have expired. A substantial amount of money is tied up in old ETP training contracts which could be made available for new contracts. Specifically,

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

in 1983–84, the panel encumbered $50.8 million in training contracts. All of these contracts should have expired by June 30, 1986. As of November 30, 1986, however, $23.3 million of the encumbered funds had not been spent or disencumbered. Panel staff states that they are still closing out 1983–84 contracts. Consequently, there may be some additional expenditures for this period as the panel makes final payments to contractors. It is likely, however, that a large part of the $23.3 million will be disencumbered.

Until the panel staff actually closes out these old contracts, the encumbered funds will remain tied up and unavailable to support other training projects. By improving its procedures for disencumbering prior-year funds, the panel would be in a better position to determine how much money will be carried over and available for expenditure in the next fiscal year. This information would enable the panel to more effectively plan and manage its training program and meet the Legislature's statutory intent.

The panel could periodically review active contracts and disencumber funds which are not likely to be spent. Currently, panel staff review active contracts and report to the panel on the progress of these projects. We believe the panel could use the project review process to (1) estimate the amount of encumbered funds a contractor is likely to spend and (2) adjust the contract amount accordingly. For example, a project which is seriously underenrolled is not likely to meet its planned number of placements or expenditures. If the panel determines that a project is going to spend significantly less than the amount encumbered, it could reduce the contract accordingly and thereby free-up some of the encumbered funds to support other training projects.

Given the importance of the ETP program, we believe the panel should make every effort to use its training resources effectively. Having large amounts of training funds tied up in projects where they are not likely to be spent is simply not a productive use of these resources and is inconsistent with legislative intent to facilitate employment of the maximum number of eligible participants. Therefore, we recommend that the Legislature adopt supplemental report language directing the panel to prepare a plan for improving its procedures for disencumbering training funds. The following supplemental report language is consistent with this recommendation:

"The Employment Training Panel shall prepare a plan for improving its procedures for disencumbering training funds. This plan shall address:

"1. How to disencumber prior-year training funds on a more timely basis.

"2. How to expand the project review process to (a) estimate the amount of current- or prior-year funds a contractor is likely to spend and (b) adjust the contract accordingly in order to free-up funds for other projects.

"The panel shall submit this plan to the Legislature by October 1, 1987."

Performance of ETP Projects Leaves Room For Improvement

We recommend that the Legislature adopt supplemental report language directing the panel to submit a plan by November 1, 1987 for improving the performance of ETP projects.

The ETP maintains extensive performance data on its training projects. Table 7 compares the planned and actual performance for projects that were *completed* as of June 30, 1986.

Table 7

Employment Training Panel Projects
All Completed Projects [a]
Through June 30, 1986

Performance Indicator	*Planned Performance*	*Actual Performance* [b]	*Actual as a Percent of Planned Performance*
Number of trainees	19,512	12,250	62.8%
Number of trainees hired in a job	15,147	8,782	58.0
Number of trainees placed for 90 days	15,147	7,754	51.2
Placement rate	77.6%	63.3%	81.6
Funds expended	$35,953,252	$18,214,088	50.7

[a] Includes projects which ended during 1984–85 and 1985–86.
[b] Based on data as of December 1, 1986.

The table shows the following regarding ETP performance:

- ***Enrollment in ETP Projects is Lower Than Anticipated.*** Many ETP contractors have had a difficult time meeting planned enrollment levels. As the table indicates, on average, contractors enrolled only 63 percent of the planned trainees.
- ***Placement Rate Does Not Meet Expectations.*** As the table indicates, ETP contractors have placed 63 percent of their trainees in jobs for at least 90 days, compared to a planned placement rate of 78 percent. It is worth noting, however, that the actual number of successful placements may understate the positive impact of ETP. For example, a machinist being retrained by his or her employer may accept a job with another employer who offers a higher wage. The skills gained through ETP training helped to advance his or her career even though under ETP's contracting provisions, this individual did not count as a successful placement.
- ***Low Expenditure Rates Reflect Disappointing Enrollments and Placements.*** Because ETP only pays for successful placements, enrollment problems, compounded by a lower placement rate, translate into lower expenditures. Table 7 shows that the panel planned to spend $36 million on projects completed as of June 30, 1986. In fact, the panel paid out only $18 million, or 51 percent, of planned expenditures. It should be noted that low expenditure rates are not necessarily bad. Unlike other training programs, ETP funds are only spent when a trainee retains a job for at least 90 days. However, when the panel commits a large sum of funds to a training agency or employer which does not meet its planned performance, the funds are tied up and unavailable to support other training projects until the contractor either amends the contract downward or the panel closes out the project.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

ETP Projects Completed in 1985–86 Were Not Significantly More Successful Than Those Completed in 1984–85. Table 8 shows the actual performance for ETP projects completed in 1984–85 and 1985–86, by year. Clearly, the *volume* of ETP activity increased significantly during this period. For example, the number of trainees and successful placements more than doubled between 1984–85 and 1985–86. Similarly, expenditures doubled between 1984–85 and 1985–86.

Table 8
Employment Training Panel Projects
Completed in 1984–85 and 1985–86

Performance Indicator	*1984–85* Actual	*1984–85* Percent of Plan	*1985–86* Actual	*1985–86* Percent of Plan	*Change* Actual	*Change* Percent of Plan
Number of trainees	2,748	70.1%	9,502	61.0%	246%	−13.0%
Number of trainees hired in a job	1,846	82.0	6,936	53.8	276	−34.4
Number of trainees employed for 90 days	1,697	75.4	6,057	47.0	257	−37.7
Placement rate	61.8%	107.6	63.7%	77.1	3	−28.4
Funds expended	$4,327,591	76.0	$13,886,497	45.9	220	−39.7

While the volume of ETP activity increased between these two years, actual performance declined, when compared with planned performance. For example, while contractors enrolled 70 percent of planned trainees in 1984–85, this enrollment rate dropped to 61 percent in 1985–86. Similar declines in performance occurred in terms of the percentage of trainees in a job for 90 days and the expenditure rate.

Finally, ETP's placement rate—the number of trainees employed for 90 days as compared with the number of trainees who enrolled in the program—improved only slightly from 62 percent in 1984–85 to 64 percent in 1985–86.

Wide Range of Performance Among ETP Contractors. In the preceding sections, we discussed the performance of ETP contracts in aggregate. However, performance varies significantly among ETP contractors, as shown in Table 9. In general, the table shows that: (1) a majority of the contractors met more than half of their planned enrollments, placements, and expenditures, (2) one-third of the contractors met less than half of their planned performance, and (3) 7 percent of the contractors failed to achieve any placements or expenditures. In sum, more than 70 percent of the completed ETP contracts failed to achieve their planned performance.

Table 9
Extent to Which ETP Contracts
Met Planned Performance
Contracts Completed as of June 30, 1986

Contracts	*Enrollment* Number	*Enrollment* Percent	*Placements* Number	*Placements* Percent	*Expenditures* Number	*Expenditures* Percent
Met 0 percent of plan	0	0.0%	12	7.1%	12	7.1%
Met 1–49 percent of plan	40	23.8	58	34.5	55	32.7
Met 50–99 percent of plan	89	53.0	54	32.1	52	31.0
Met 100 percent or more of plan	39	23.2	44	26.2	49	29.2
Totals	168	100.0%	168	100.0%	168	100.0%

Why Is Actual Performance Failing to Live Up to Expectations? There are a number of explanations for why ETP's actual performance has fallen short of planned performance. Some causes of lower-than-expected performance fall under the panel's responsibility to develop, approve, and monitor training contracts. Some of these causes include the following:

- ***Contractors' or Trainees' Failure to Adhere to the Terms of the ETP Contract.*** In a number of cases, trainees were hired at a wage below what was specified in the training contract. Consequently, the trainees were not counted as successful placements and ETP did not pay the contractor for these trainees.
- ***Weak Employer Commitment to the Training Project.*** Several companies have terminated contracts because they decided—after entering into the ETP contract—to hire individuals already skilled in a particular occupation, rather than training unemployed individuals or retraining existing employees to do the job.
- ***Overestimated Need by Training Agencies or Employers for a Particular Skill.*** For example, one firm overestimated its need for electronic technicians and terminated 55 trainees from training who it could not hire.
- ***Overly Optimistic Enrollment Projections by the Contractors.*** A number of contractors simply have not been able to fill the number of training slots they projected in the ETP contract.

We recognize that some causes of lower-than-expected performance were outside the panel's control. For example, several businesses which had contracted to retrain or employ ETP participants subsequently were taken over by other corporations or went out of business. In other cases, performance was affected by an upturn or downturn in an industry, or a change in business plans. For example, a slowdown in the dairy business prevented one company from hiring the number of ETP trainees it had originally agreed to hire.

Panel Needs a Plan to Improve Performance. The continuing gap between ETP's planned and actual performance indicates that the panel has had a difficult time identifying feasible training proposals. We recognize that the panel cannot "bat" a thousand on its training proposals. On the other hand, there is room for improvement when more than 70 percent of the projects failed to meet their planned performance.

Given the fact that overall performance has fallen below expectations and the wide range of performance among ETP contracts, we recommend that the Legislature adopt supplemental report language directing the panel to evaluate the factors leading to successful and nonsuccessful projects. We further recommend that ETP use the results of such a study to present a plan to the Legislature for improving the performance of its training projects.

The following supplemental report language is consistent with this recommendation:

"The Employment Training Panel shall provide the Legislature by November 1, 1987 with a plan for improving the performance of ETP training projects. In developing such a plan, the panel shall first evaluate factors leading to successful and nonsuccessful projects, in terms of enrollment, placements, and expenditures. The plan shall include, but not be limited to, ways to:

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

"• Achieve higher placement rates.

"• Reduce the discrepancy between contractors' planned and actual enrollments, placements, and expenditures."

ETP Has Largest Impact Training the Unemployed But Emphasizes Training For the Potentially Displaced

The goals of the ETP program include: (1) providing training to unemployed and potentially unemployed individuals so that they obtain good jobs with long-term career potential and (2) reducing UI costs for California's employers. The extent to which these two goals are being achieved by the program can be measured by the increased earnings and reduced UI benefits of ETP participants.

A recent study commissioned by the panel provides some information on the impact of ETP on the earnings and UI benefits of trainees. The study, conducted by the Training Research Corporation (TRC), found that, in terms of increased earnings and reduced UI benefits, ETP training had the largest impact on unemployed participants. Table 10 shows that UI exhaustees—individuals who have exhausted their UI eligibility—experienced the largest gain in earnings, followed by UI recipients, and then by the potentially displaced. The UI exhaustees also experienced the largest reduction in UI benefits, followed by the potentially displaced, and then by UI recipients.

Table 10

Impact of ETP Training on Earnings and UI Benefits

	Percent Change	
Trainees	*Wages*	*UI Benefits*
Unemployed		
UI exhaustees	535%	−86%
UI recipients	62	−50
Potentially Displaced	33	−63

Source: Training Research Corporation, ETP Participants' Earnings and Unemployment Records: A Preliminary Analysis.

It is not known exactly how much of the increased earnings and reduced UI benefits can be attributed to ETP training. Various other factors also may affect an individual's earnings and unemployment, including changes in the economy, hiring patterns in a specific industry, and the individual's personal situation. Nevertheless, the magnitude of the TRC findings are significant enough to indicate where ETP resources have the biggest impact on raising earnings and reducing UI benefits.

ETP Does Not Emphasize Services to the Unemployed. Despite the findings of the TRC study, the panel is increasingly emphasizing training for the potentially displaced rather than the unemployed, as shown in Table 11. The table shows that in 1984–85, unemployed trainees made up 82.4 percent of all trainees in projects. By December 1, 1986, however, the unemployed made up only 32.6 percent of trainees in projects which were still active.

Table 11

ETP Trainees in Completed Projects and Active Projects [a]

Trainees	*Completed Projects 1984–85*	*Completed Projects 1985–86*	*Active Projects*
Number [b]	2,748	9,502	40,807
Percent who are:			
Unemployed	82.4%	47.4%	32.6%
Potentially Displaced	17.6	52.6	67.4

[a] Projects approved by panel prior to July 1, 1986 and still active as of December 1, 1986.
[b] For completed projects, number of trainees represents actual enrollments. For active projects, number of trainees represents planned enrollments.

Why Has ETP Shifted Its Emphasis From the Unemployed to the Potentially Displaced? The panel does not have a stated policy which expresses a priority for serving the potentially displaced over the unemployed. Increasingly, however, the panel is allocating more funds to train the potentially displaced than the unemployed. One explanation for this shift towards the potentially displaced may be that the panel has experienced greater success in training this group. Chart 1 compares the progress of the two groups of trainees at various benchmarks in the ETP program. The chart shows that:

- Nearly the same porportion of unemployed (75 percent) and potentially displaced (79 percent) trainees completed training.
- A significantly higher percentage of the potentially displaced trainees were hired into jobs which met the terms of the ETP contract—78 percent of the potentially displaced trainees compared with 65 percent for the unemployed trainees. This is not surprising given that the potentially displaced trainees are already employed.
- Seventy-five percent of the potentially displaced trainees were employed for 90 days in a job that met the terms of the ETP contract. By comparison, 52 percent of the unemployed trainees achieved this benchmark.
- Forty-eight percent of the unemployed dropped out of the program before they were employed for 90 days, compared to 25 percent of the potentially displaced.

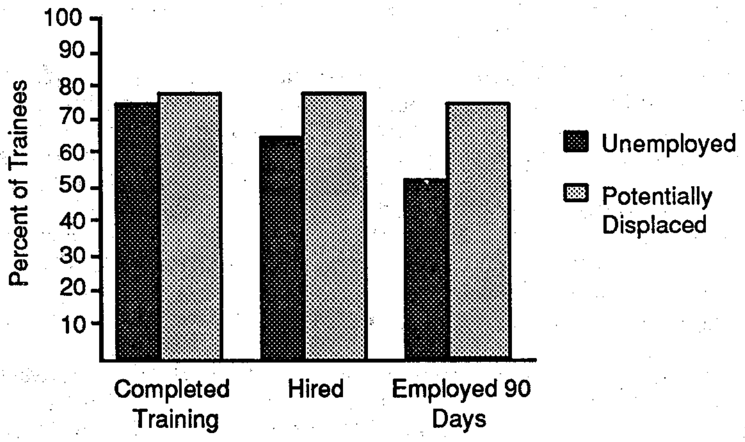
In addition, projects training the potentially displaced appear more impressive because these trainees earn a substantially higher hourly wage after training than do unemployed trainees ($9.33 compared with $6.58). This is to be expected given that employed trainees are generally retrained for higher level positions in their companies, in addition to having higher pay based on seniority. Finally, contractors who trained the potentially displaced came closer to meeting their planned expenditures than contractors who trained the unemployed (56 percent compared with 46 percent). The panel is currently considering a proposal from TRC to further study the impact of ETP training on different participants.

In sum, the data presented above raise a basic policy issue for the Legislature as to how training resources dedicated to this program should be allocated between the unemployed and potentially displaced. On the one hand, ETP participants who are unemployed appear to experience a larger net increase in earnings and decrease in UI benefits than do the potentially displaced. On the other hand, potentially displaced participants appear to be more successful trainees—that is, they are more likely to be successfully placed according to the terms of the ETP contract.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

Chart 1

Percent of Unemployed and Potentially Displaced Trainees Achieving Training Benchmarks



Clearly, the issue is not whether to train one group to the exclusion of the other, but rather the balance that should be struck between training these two groups. This is because there are advantages to the state in training both the potentially displaced and the unemployed. For example, to the extent that retraining the potentially displaced increases a firm's productivity and competitiveness, that firm is less likely to lay off workers, to shut down, or to leave California. At the same time, training the unemployed helps individuals to become productive, taxpaying members of the economy, thereby reducing their need for public assistance. We believe this is an issue which the panel also must address when it establishes written priorities for allocating training funds.

Panel Should Require Further Certification That Trainees are Truly Potentially Displaced

We recommend that ETP require employers to certify that they would not provide training to potentially displaced individuals in the absence of ETP assistance.

In our April 1986 report (Report No. 86-5) on the ETP program, we recommended that the panel require employers who propose to train the potentially displaced to certify that training would not take place *without* ETP assistance. We believe this certification is necessary to ensure that ETP training does not merely supplant employer-paid training and that ETP trains only those who truly are potentially displaced.

To date, the panel has not implemented such a requirement. As a result, the panel has continued to approve a number of contracts where it appears that ETP funds are substituting for employer training funds. For example, we would expect a firm which purchases an expensive new computer system to provide training to its existing employees on the use of this system. However, ETP is paying for such retraining on the grounds that the employees are potentially displaced.

In order to ensure (1) that ETP funds are used to train individuals who are *actually* in danger of losing their jobs and (2) that ETP training funds do not simply substitute for employer training funds, we recommend that ETP require employers to certify that they would *not* provide similar training to potentially displaced individuals in the absence of ETP funds.

ETP's Management Information System Needs Improvement

We recommend that during budget hearings, the panel advise the fiscal committees on how it plans to improve its management information system.

A consistent and accurate management information system (MIS) is essential in order for the panel to manage the ETP program effectively. This is particularly important given the growth in ETP activity. During our review of the panel's operations, we identified the following shortcomings in the panel's MIS:

1. ***Participant Information Is Not Automated.*** In our April 1986 report on the ETP program, we recommended that the panel maintain computerized data on the characteristics of its trainees. To date, the panel has not implemented this recommendation. We believe ETP needs this data in order to determine the impact of the program on various individuals, as well as to inform the Legislature about who the panel is serving. With over 80,000 trainees, manual calculations of this data are overwhelming and inefficient.

In addition, the panel should automate its participant characteristics data in order to track the number of participants it trains as a result of the Greater Avenues for Independence (GAIN) program. The panel recently approved a proposal to target recruiting to participants in the GAIN program and expressed its intent to spend up to $5 million for training these partipants. In order to determine the extent of training actually provided to GAIN participants, the panel should include participation in GAIN as one of the trainee characteristics it maintains in its computerized data base.

2. ***ETP's Fiscal System and Contract File Are Not Consistent or Integrated.*** During our review of the data in ETP's contract file, we found that it was not clear whether certain data reflected (a) the original contract, (b) an amended contract, (c) actual numbers reported by ETP field staff, or (d) numbers verified by ETP's fiscal staff in the process of determining how much a contractor had earned. The ETP staff apparently update the contract file after they verify successful placements. In doing so, however, they may replace planned or reported numbers in the contract file with final numbers. Consequently, it is difficult to trace the performance of specific contracts from plan through final verification.

3. ***ETP's Automated Contract File Is Not Accurate.*** We discovered numerous errors in our review of ETP contract data. Without accurate contract and performance data, the panel is unable to track its own performance for managment purposes, nor can it advise the Legislature of its actual performance.

EMPLOYMENT DEVELOPMENT DEPARTMENT—Continued

In light of these shortcomings, we recommend that, during budget hearings, the panel advise the fiscal committees of its plan to improve its management information system. Such a plan should address, but not be limited to, the problems identified above.

Transfer of Employment Training Fund Interest is Inconsistent with State Law

We recommend that the Legislature delete Budget Bill language in Item 5100-001-514 which proposes to transfer Employment Training Fund interest earnings to the General Fund because the proposal is inconsistent with state law.

The budget proposes to transfer $15 million in interest earnings from the Employment Training Fund (ETF) to the General Fund for "high priority expenditure needs." The budget proposal does not specify how these funds will be used after they have been transferred to the General Fund.

The funds in the ETF are generated by an Employment Training Tax (ETT) which is assessed against employers who have paid more into the UI Fund than has been paid out in benefits to their former employees. These funds are used to provide skill training to specified individuals. Currently, interest earned on the ETF in one year is carried over into the next year, when it becomes available for expenditure along with, and for the same purposes as, other funds in the ETF.

Based on our review, we conclude that the proposed transfer is inconsistent with state law regarding the use of ETF monies. Specifically, state law provides that the Employment Training Panel (ETP) may allocate funds from the ETF for the following two purposes:

- To reimburse employers and training contractors for training unemployed and potentially displaced individuals.
- To cover the administrative costs of the ETP program.

Clearly, the proposed transfer is inconsistent with these purposes. Furthermore, this proposal reduces the amount of funds which would otherwise be available to provide training to potentially displaced and unemployed individuals in California.

For these reasons, we recommend that the Legislature delete Budget Bill language in Item 5100-001-514 which proposes to transfer ETF interest earnings to the General Fund. If our recommendation is adopted, the ETP will have an additional $15 million available for training in 1988–89 and the General Fund balance is correspondingly reduced.

JOB TRAINING PARTNERSHIP ACT PROGRAM

Review of the Job Training Partnership Act (JTPA) Program

We recommend that the Legislature adopt supplemental report language directing the Job Training Partnership Office (JTPO) and the Job Training Coordinating Council (JTCC), with the assistance of the Service Delivery Areas (SDAs), to:

1. *Develop standard training definitions and procedures for reporting on local training activities and outcomes, by September 15, 1987.*

2. *Develop a standard definition of "placement" which is more rigorous than the existing federal placement standard, by September 15, 1987.*

3. *Submit a plan for improving the performance standards and incentive awards system, by December 1, 1987.*

The JTPA program provides employment and training services to disadvantaged adults and youth, older workers, and displaced workers. In a separate report (LAO Report No. 87-4), we evaluate the performance of JTPA in California and the state's oversight of the program. The recommendations listed above are contained in that report. Our analysis indicates that adoption of these recommendations by the Legislature would improve the performance of the next JTPA two-year program cycle, which begins July 1, 1988.

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY

Item 5100-301 from various federal funds — Budget p. HW 144

Requested 1987–88	$1,798,000
Recommended reduction	334,000
Recommendation pending	1,464,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Chico Office Building. Withhold recommendation on Item 5100-301-870(1), pending receipt of a budget estimate and additional information. 708
2. ***Indio Office Building. Reduce Item 5100-301-870(3) by $184,000.*** Recommend deletion of this project because the Office of Planning Development and Management advises us that the proposed work is not technically feasible. 708
3. ***Salinas Office Building. Reduce Item 5100-301-870(4) by $150,000.*** Recommend deletion of project to expand/remodel the Salinas office because it is not clear that the project meets the department's needs in a cost efficient manner. 708
4. Minor Capital Outlay. Withold recommendation on Item 5100-301-870(2), pending additional information. 708

ANALYSIS AND RECOMMENDATIONS

The budget proposes $1.8 million for 34 minor (under $200,000 per project) and for three major capital outlay projects in 1987–88. This amount includes: $101,000 from the federal Employment Development Department Contingent Fund, $186,000 from the federal Unemployment Compensation Disability Fund and $1.5 million from the federal Unemployment Administration Fund. While the Indio and Salinas projects (Items 5100-301-870(3) and (4)) are shown as *major* capital outlay projects in the Budget Bill, these projects are for less than $200,000 and thus (if approved) would more appropriately be scheduled as part of the department's minor capital outlay program.

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY—Continued

Chico Handicapped Access and Alterations

We withhold recommendation on \$210,000 to remodel the Chico office building, pending receipt of a budget estimate and additional information. (Withhold recommendation on Item 5100-301-870(1).)

The budget proposes \$210,000 for preliminary plans, working drawings and construction to remodel the Chico EDD office. The project includes remodeling restrooms to meet accessibility standards, enlarging storage space, and installing a suspended ceiling, insulation, and new lighting. While some of the work proposed may be necessary, the department has not fully justified the need for a lowered ceiling and new lighting. In addition, we have not received a budget estimate. Accordingly, we withhold recommendation, pending an estimate and additional justification.

Indio Office Handicapped Access and Alterations

We recommend deletion of \$184,000 for the Indio office remodeling, because the project, as proposed, is not technically feasible. (Reduce Item 5100-301-870(3) by \$184,000.)

The budget proposes \$184,000 for preliminary plans, working drawings and construction funds to remodel the Indio EDD office. The project includes: remodeling restrooms for handicapped standards, installing a suspended ceiling with new lighting, creating conference rooms and relocating and replacing the heating, air conditioning and ventilation system with roof mounted units. While some of the proposed work may be needed, the Office of Project Development and Management (OPDM) advises us that the project, as currently proposed, is not technically feasible. Consequently, we recommend deletion of the proposed funds.

Salinas Office Handicapped Access and Alterations

We recommend deletion of \$150,000 for the Salinas office remodeling and expansion because it does not appear that the project will meet the office's space needs in a cost efficient manner. (Reduce Item 5100-301-870(4) by \$150,000).

The EDD proposes to build a 600 square foot extension of its Salinas office in order to provide accessible employee restrooms and a new boiler room. The existing boiler room and restrooms would also be converted to a training/workshop room and janitor's closet. This workshop space would eliminate the need for EDD to lease separate premises to conduct training sessions (annual lease savings of approximately \$7,000.)

The proposed 600 square foot addition would cost \$108,000 (\$180 per square foot). This is nearly double the cost for typical office facilities. The proposed addition, coupled with \$42,000 for the alteration portion of the project, do not represent a cost effective solution to EDD's space needs in Salinas. Consequently, we recommend the deletion of the funds for the Salinas project. We urge the department to reconsider its proposal and develop a more cost efficient solution.

Minor Projects

We withhold recommendation, pending receipt of additional information.

The budget includes \$1.3 million to undertake 34 minor capital outlay projects (\$200,000 or less per project) at 24 EDD offices. This amount includes:

- $653,000 for the remodeling of 18 offices for an "open landscape" design, installing carpeting and purchasing moveable partitions. ("Open landscape" refers to office design where most employees work in a large common room, separated by moveable partitions.)
- $226,000 to install suspended ceilings, rework existing air conditioning ducts and install new light fixtures in five offices.
- $109,000 for remodeling restrooms in four offices for handicapped accessibility.
- $149,000 to add rooms for either job development workshops, computers or storage at four offices.
- $117,000 for miscellaneous minor alterations to three offices.

The EDD has indicated a desire to improve existing facilities, but has not identified the specific problems and to what degree the proposed work will mitigate the problems. Moreover, EDD has provided no details to substantiate the estimated cost of the various projects. Consequently, we withhold recommendation, pending receipt of this information.

Supplemental Report Language

For purpose of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

EMPLOYMENT DEVELOPMENT DEPARTMENT—REAPPROPRIATION

Item 5100-490 from federal funds Budget p. HW 126

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 contains Budget Bill language that allows the Employment Development Department (EDD) to carry forward into 1987–88 all JTPA local assistance funds which are unexpended in the current year. Without this language, the 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 the EDD to notify the Legislature by December 1, 1987 of the actual amount of JTPA local assistance funds carried over into 1987–88.

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 140

Requested 1987–88	$89,352,000
Estimated 1986–87	86,649,000
Actual 1985–86	80,890,000
Requested increase (excluding amount for salary increases) $2,703,000 (+3.1 percent)	
Total recommended reduction	None
Recommendation pending	61,157,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5160-001-001—Support	General	$18,689,000
5160-001-890—Support	Federal Trust	(99,748,000)
5160-001-942—Support	Vending Stand Account	(1,540,000)
5160-101-001—Local Assistance	General	65,599,000
Reimbursements		5,064,000
Total		$89,352,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Additional Federal Funds. Recommend that prior to budget hearings, the department advise the fiscal committees regarding its plans to use available, but unbudgeted, federal funds. 713
2. Work Activity Program Rates. Recommend that prior to budget hearings, the department provide the fiscal committees with the potential costs and benefits of alternative Work Activity Program (WAP) rate systems. 714
3. Work Activity Program and Supported Employment Program Caseloads. Withhold recommendation on $61.2 million in General Fund support for the WAP and Supported Employment Program pending receipt of updated caseload data in the May revision. 714

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.

The department is authorized 1,537.5 personnel-years (PYs) in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $89.4 million from the General Fund and reimbursements for support of the Department of Rehabilitation in 1987–88. This is an increase of $2.7 million, or 3.1 percent, above estimated current-year expenditures. The budget has been reduced by $189,000, which is approximately 1 percent of the General Fund support, as a "Special Adjustment."

Total program expenditures, including expenditures from federal funds, special funds, and reimbursements are proposed at $190.6 million, an increase of $2.9 million, or 1.5 percent, above estimated current-year expenditures. Table 1 displays program expenditures and funding sources from the prior, current, and budget years. Table 2 shows the number of PYs for the department during the period 1985–86 through 1987–88.

The expenditure tables which follow have not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

Table 1
Department of Rehabilitation
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Vocational Rehabilitation	$100,532	$109,050	$109,110	NMF[a]
Habilitation Services	53,618	59,272	61,772	4.2%
Support of Community Facilities	8,050	8,128	8,513	4.8
Administration	11,845	11,336	11,245	−0.8
Totals	$174,045	$187,786	$190,640	1.5%
Funding Sources				
General Fund	*$76,364*	*$81,585*	*$84,288*	*3.3%*
Federal Trust Fund	*91,870*	*99,773*	*99,748*	*NMF[a]*
Vending Stand Account	*1,285*	*1,364*	*1,540*	*12.9*
Reimbursements	*4,526*	*5,064*	*5,064*	—

[a] Not a meaningful figure.

Table 2
Department of Rehabilitation
Personnel-Years
1985–86 through 1987–88

Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Change From 1986–87 Amount*	*Change From 1986–87 Percent*
Vocational Rehabilitation	1,381.0	1,336.5	1,330.8	−5.7	−0.4%
Habilitation Services	20.5	19.4	19.4	—	—
Support of Community Facilities	13.2	11.5	12.4	0.9	7.8
Administration	192.8	170.1	168.1	−2.0	−1.2
Totals	1,607.5	1,537.5	1,530.7	−6.8	−0.4%

DEPARTMENT OF REHABILITATION—Continued

General Fund Request. Table 3 identifies the significant changes in General Fund expenditures proposed for 1987–88. Several of these changes are discussed later in this analysis.

Table 3
Department of Rehabilitation
Proposed 1987–88 General Fund Budget Changes
(dollars in thousands)

	Adjustments	*Totals*
1986–87 expenditures (revised)		$81,585
1. Program change proposals		
a. Elimination of Project Interdependence	–$292	
b. Work Activity Program/Supported Employment Program—caseload increase	2,757	
c. Additional position for Community Resources section	50	
Total, Program Change Proposals		$2,515
2. Other Adjustments		
a. Reader Services for Blind Students (Ch 903/85)	–$58	
b. Special 1 percent adjustment	–189	
c. Replace one-time federal funding for Independent Living Centers	135	
d. Replace one-time funding for Independent Living Centers (Ch 1440/85)	300	
Total, Other Adjustments		$188
1987–88 expenditures (proposed)		$84,288
Change from 1986–87:		
Amount		$2,703
Percent		3.3%

ANALYSIS AND RECOMMENDATIONS

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

- An increase of $50,000 from the General Fund to support one additional position in the Community Resources Development section.
- An increase of $1.3 million from federal funds and vending stand fees to augment vending stand services under the Business Enterprise Program.
- A reduction of $292,000 and 4.7 PYs due to elimination of Project Interdependence.

VOCATIONAL REHABILITATION SERVICES

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

The federal and state governments share in the cost of the basic Vocational Rehabilitation (VR) services. The state pays 20 percent of the cost of the basic VR program, while the federal government pays 80 percent of the costs. In addition, the federal government reimburses DOR for the full cost of successfully rehabilitating certain VR clients.

The budget proposes an expenditure of $120 million from all funding sources for VR services and associated administration in 1987–88. This is an increase of $155,000, or 0.1 percent, above estimated current-year expenditures. Of the total, $17.4 million is requested from the General Fund, $96.1 million is from federal funds, and $6.5 million is from fees and reimbursements.

The budget also proposes to spend an additional $3.2 million in federal VR funds for grants to community facilities.

Department Does Not Propose to Use All Available Federal Funds

We recommend that prior to budget hearings, the department advise the fiscal committees on (1) the actual level of federal funds available to the state during 1986–87 and 1987–88, (2) what amount of available, but unbudgeted, funds it intends to use, and (3) how it plans to use the additional funds.

The budget document estimates that federal funds for basic support of the rehabilitation program will total $94.3 million in the current year and $96 million for the budget year. These amounts, however, do not reflect recent congressional action that increased nationwide VR funding from $1.1 billion in federal fiscal year 1986 (FFY 86) to $1.3 billion in FFY 87, an increase of 12 percent. This increase will result in an additional $6 million for California in the current year. Furthermore, the department assumes that the FFY 88 appropriation will be 5 percent above the FFY 87 appropriation. If this occurs, the department will have available an additional $7 million above the amount proposed in the 1987–88 budget.

We believe the department should make every effort to use available federal funds in order to provide increased rehabilitation services to the disabled. Under federal law, the state must provide a 20 percent match in order to obtain federal VR funds. This matching requirement need not occur directly from the General Fund, however. There are a number of ways the department can leverage available federal funds without requiring additional General Fund resources. For example, through cooperative programs with local schools, DOR utilizes education funds to match federal VR funds.

In order to ensure that the Legislature has an opportunity to review all funds available to the department, we recommend that prior to budget hearings, DOR advise the fiscal committees on (1) the amount of available federal funds, (2) the amount of unbudgeted federal funds it intends to use, and (3) how it intends to use the additional funds.

HABILITATION SERVICES

The department serves individuals through the habilitation services program who are too severely disabled to benefit from the VR program. Habilitation services include (1) the Work Activity Program (WAP), (2) the Supported Employment Program (SEP), and (3) Counselor-Teacher and Reader Services for the blind. The objectives of WAP are to (1) provide clients with stable work in a sheltered setting, (2) increase clients' vocational productivity and earnings, and (3) to the extent possible, develop clients' potential for competitive employment. Compared to WAP, the major objective of SEP is to provide training and supportive services to clients so that they can engage in competitive employment.

DEPARTMENT OF REHABILITATION—Continued

WAP Provider Rates Up In the Air

We recommend that prior to budget hearings, the department provide the fiscal committees with data comparing the potential costs and benefits of (1) enacting a new WAP rate structure in 1987–88 or 1988–89 or (2) reverting to cost-based rates on July 1, 1988.

Chapter 135, Statutes of 1984, froze the rates DOR pays to WAP providers at the 1983–84 level until July 1, 1988 subject to legislative adjustments. If no new rate structure is established by that date, the cost-based rates in effect prior to the rate freeze would be reactivated. The Legislature enacted Chapter 135 because of serious concerns regarding the adequacy of the cost-based rates. While the rates were frozen, the administration and WAP providers were supposed to work together to develop a better rate system.

Lengthy negotations between the administration and providers over the past several years have not produced a new rate system. Unless new rates are enacted through legislation, the old rate system will resume in 1988–89. Based on conversations with providers and the department, we understand several alternative rate systems have been considered. At the time this analysis was prepared, however, the department could not tell us (1) what rate proposals it is considering or (2) the General Fund cost of enacting a new rate system compared to the cost of reverting to the old rate system.

It is likely that changing the WAP rates—whether reverting to the old cost-based system or establishing a new rate system—will result in increased General Fund costs. This is because the current rates are artificially low as a result of being frozen for three years. Without information on the alternative rate systems under consideration, however, we are unable to advise the Legislature on the magnitude of the cost increase which would result from enacting new rates or reverting to the old ones. We are also unable to analyze the merits of the various alternatives.

We believe that before it can make a decision the Legislature needs to assess the fiscal impacts and policy implications of the various rate systems. Therefore, we recommend that prior to budget hearings, the department provide the fiscal committees with data comparing the costs and benefits of enacting a new rate proposal or reverting to the cost-based rate on July 1, 1988. This information should compare the short- and long-term costs and benefits of the various rate systems.

WAP and SEP Caseloads Are Potentially Underfunded

We withhold recommendation on $61.2 million in General Fund support requested for WAP and SEP, pending receipt of updated caseload data in the May revision.

The budget proposes $61.2 million from the General Fund for the WAP and SEP in 1987–88. Of this amount, $59.9 million is proposed for local assistance grants to work activity centers and supported employment programs and $1.3 million is for state administration of these programs.

Budget Proposal Ignores Department's Caseload Forecast. The budget proposal assumes that the combined WAP and SEP caseloads will grow by 6.7 percent in 1987–88. This consists of a decrease in the WAP caseload and an increase in the SEP caseload.

The budget's assumption that the total caseload will grow by 6.7 percent is inconsistent with the department's own caseload forecast which predicted an 8.3 percent growth rate. The department advises that it adjusted the estimate of caseload down from 8.3 percent to 6.7 percent because historically the growth rate in the program has been between 6 percent and 7 percent. If caseloads grow by 8.3 percent, instead of 6.7 percent, then the budget is underfunded by about $1 million.

We believe that the budget caseload estimate is flawed for three reasons. First, we would expect the total WAP and SEP caseload to grow by a larger amount than in the past because of the expansion of the SEP, which began in the current year. This expansion is occurring due to the following factors:

- Establishment of 10 new supported employment programs annually for five years under a federal grant, beginning in 1986–87.
- Enactment of a special rate structure for supported employment beginning in September 1986 (pursuant to Ch 972/86).
- Widespread encouragement and enthusiasm for the supported employment concept at the federal, state, and community levels.

Second, while we agree with DOR that some of the caseload growth in SEP will be offset by reduced caseload in basic WAP, the department has no data from which to conclude that the basic WAP caseload will *decrease* by 2.6 percent in 1987–88.

Third, the SEP caseload estimate for 1987–88 is based on the *budgeted*, rather than the actual caseload experience for 1986–87. Because the actual caseloads for the current year are running above the budgeted amounts, the 1987–88 caseload is probably understated.

In sum, we have no analytical basis for recommending approval of the department's budget for WAP and SEP. The department advises that it will have additional caseload data available in time for the May revision. These data should provide a more accurate assessment of the impact of SEP on total caseload growth. Consequently, we withhold recommendation on $61.2 million in General Fund support budgeted for WAP and SEP pending receipt of updated caseload estimates for these programs in May.

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 $9.4 billion in 1987–88. This is an increase of $364 million, or 4 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
1985–86 through 1987–88
(dollars in thousands)

Program	Actual 1985–86	Est. 1986–87	Prop. 1987–88	Change From 1986–87 Amount	Change From 1986–87 Percent
Departmental Support	$229,192	$231,049	$222,586	−$8,463	−3.7%
AFDC [a]	3,859,802	4,104,704	4,133,122	28,418	0.7
SSI/SSP [b]	2,636,658	2,963,887	3,160,466	196,579	6.6
Special Adult Programs	2,577	2,591	3,183	592	22.8
Refugee Programs	52,152	47,598	43,282	−4,316	−9.1
County Welfare Department Administration [a]	650,215	710,976	757,864	46,888	6.6
Social Services Programs [a]	771,697	1,000,912	1,104,562	103,650	10.4
Community Care Licensing	11,146	12,069	13,091	1,022	8.5
Totals	$8,213,439	$9,073,786	$9,438,156	$364,370	4.0
Funding Sources					
General Fund	*$3,708,116*	*$4,250,161*	*$4,514,964*	*$264,803*	*6.2*
Federal Funds [b]	*4,077,668*	*4,353,507*	*4,443,404*	*89,897*	*2.1*
County Funds	*416,955*	*453,431*	*459,237*	*5,806*	*1.3*
Reimbursements	*8,555*	*14,378*	*15,105*	*727*	*5.1*
State Children's Trust Fund	*−851*	*2,340*	*5,415*	*3,075*	*131.4*
Special Deposit Fund	*2,996*	—	—		
Foster Family Home Insurance Fund	—	*−31*	*31*	*31*	*NMF* [c]

[a] Includes county funds.
[b] Includes SSI federal funds.
[c] Not a meaningful figure.

Table 2 shows the *General Fund* expenditures for cash grant and social services programs administered by DSS. The budget requests a total of $4.5 billion from the General Fund for these programs in 1987–88. This is an increase of $265 million, or 6.2 percent, above estimated current year expenditures.

Table 2
Department of Social Services
General Fund Expenditures
1985–86 through 1987–88
(dollars in thousands)

Program	*Actual 1985–86*	*Est. 1986–87*	*Prop.[a] 1987–88*	*Change from 1986–87 Amount*	*Change from 1986–87 Percent*
Departmental Support	$68,138	$78,610	$72,022	$6,588	−8.4%
AFDC	1,789,787	1,952,302	1,985,342	33,040	1.7
SSI/SSP	1,407,725	1,637,517	1,768,251	130,734	8.0
Special Adult Programs	2,565	2,516	3,108	592	23.5
County Welfare Department Administration	124,965	140,635	156,863	16,228	11.5
Social Services Programs	306,636	430,584	520,995	90,411	21.0
Community Care Licensing	8,300	7,997	8,383	386	4.8
Totals	$3,708,116	$4,250,161	$4,514,964	$264,803	6.2%

[a] Includes proposed cost-of-living adjustments and other legislation.

OVERVIEW OF ANALYST'S RECOMMENDATIONS

We are recommending a net increase of $42.5 million from the amount proposed for expenditure from all funds. This amount consists of $17.4 million from the General Fund and $25.1 million in federal funds. In addition, we are withholding recommendation on $2.5 million 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	*General Fund*	*Federal Fund*	*All Funds*	*Recommendations Pending (all funds)*
Department Support	$951	—	$951	—
AFDC	23,400	$27,400	50,800	—
SSI/SSP	—	—	—	—
Special Adults	—	—	—	—
Refugees	—	—	—	—
County Administration	−2,382	−4,700	−7,082	2,500
Social Services	−5,000	2,419	−2,581	—
Community Care Licensing	402	—	402	—
Cost-of-Living Adjustments	—	—	—	—
Totals	$17,371	$25,119	$42,490	$2,500

Department of Social Services
DEPARTMENTAL SUPPORT

Item 5180-001 from the General Fund and Federal Trust Fund — Budget p. HW 148

Requested 1987–88	$81,675,000
Estimated 1986–87	87,588,000
Actual 1985–86	76,693,000
Requested decrease (excluding amount for salary increases) $5,913,000 (−6.8 percent)	
Total recommended increase	951,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-001-001—Department of Social Services Support	General	$71,970,000
5180-001-131—Department of Social Services Support	Foster Family Home and Small Family Home Insurance	(603,000)
5180-001-890—Department of Social Services Support	Federal	(140,751,000)
Reimbursements		9,705,000
Total		$81,675,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Statewide Automated Welfare System (SAWS). Recommend that the Legislature adopt supplemental report language requiring the Department of Social Services to determine the cost-effectiveness of SAWS. 723
2. ***Community Care Licensing. Increase Item 5180-001-001 by $951,000.*** Recommend transfer of $951,000 from Item 5180-151-001 for increased family day care licensing due to the implementation of the Greater Avenues for Independence program. 724

GENERAL PROGRAM STATEMENT

The Department of Social Services (DSS) administers income maintenance, food stamp, and social services programs. It also is 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 3670.1 personnel-years to administer these programs in the current year.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $81.7 million from the General Fund and reimbursements for support of the department in 1987–88. This is a decrease of $5.9 million, or 6.8 percent, from estimated current-year

DEPARTMENTAL SUPPORT—Continued

expenditures. Of this amount, the budget has been reduced by $728,000, which is approximately 1 percent of the General Fund support, as a "special adjustment."

The budget proposes expenditures from all funds, including reimbursements, of $222.6 million. This is $8.5 million, or 3.6 percent, below estimated current-year expenditures.

The expenditure tables which follow have not been adjusted to reflect any potential savings in 1986–87 which may be achieved in response to the Governor's December 22, 1986 directive to state agencies and departments to reduce General Fund expenditures.

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
1985–86 through 1987–88
(dollars in thousands)

Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Change from 1986–87 Amount*	*Change from 1986–87 Percent*
AFDC-FG&U	$4,249	$5,105	$4,988	−$117	−2.3%
AFDC-FC	22,014	16,784	16,901	117	.7
Child Support	7,375	8,670	9,557	887	10.2
SSI/SSP	768	807	810	3	.4
Special Adult programs	277	306	309	3	1.0
Food Stamps	17,445	19,412	20,788	1,376	7.1
Refugee programs					
Cash Assistance	2,343	2,943	2,928	−15	−.5
Social Services	1,545	1,453	1,344	−109	−7.5
Targeted Assistance	853	962	972	10	1.0
Child welfare services	3,597	3,678	4,027	349	9.4
County Services Block Grant	800	709	687	−22	−3.1
IHSS	2,423	2,509	2,316	−193	−7.7
Employment programs	25,703	4,863	5,698	835	17.1
Adoptions	6,992	7,202	7,033	−169	−2.3
Child Abuse Prevention	1,867	2,113	2,058	−55	−2.6
Community Care Licensing	25,762	32,642	30,028	−2,614	−8.0
Disability Evaluation	93,429	108,275	106,861	−1,414	−1.3
Administration	11,750	12,616	6,009	−6,607	−52.3
Special Adjustment	—	—	−728	−728	−100.0
Totals	$229,192	$231,049	$222,586	−$8,463	−3.6%
Funding Sources					
General Fund	*$68,138*	*$78,610*	*$72,022*	*−$6,588*	*−8.4%*
Federal funds	*149,439*	*143,490*	*140,751*	*−2,739*	*−1.9*
Reimbursements	*8,555*	*8,978*	*9,705*	*727*	*8.1*
Special Deposit Fund	*2,996*	*0*		—	
State Children's Trust Fund	*64*	*2*	*77*	*75*	*NMF*[a]
Foster Family Home Insurance Fund	—	*−31*	*31*	*62*	*NMF*[a]

[a] Not a meaningful figure.

Proposed General Fund Changes

Table 2 shows the changes in the department's General Fund support expenditures that are proposed for 1987–88. Several of the individual changes are discussed later in this analysis.

Table 2
Department of Social Services
Departmental Support
Proposed 1987–88 General Fund Changes
(dollars in thousands)

1986–87 expenditures (revised)		$78,610
Proposed changes		
A. Workload adjustments		
1. Expiration of limited-term positions	–$2,619	
2. Reduction in one-time costs	–1,930	
3. Retirement benefits	28	
4. One-time administrative costs—disaster relief	–2,150	
5. Full-year cost of phased-in positions	656	
Total		–6,015
B. Cost adjustments		
1. One-time grant costs—disaster relief	–4,613	
2. Special adjustment	–728	
3. Board of Control claims	8	
Total		–5,333
C. Program adjustments		
1. Reductions due to office automation	–89	
2. Net cost of hearing officer upgrades	158	
3. Foster Care rates and audit appeals—extension of limited-term positions	485	
4. Child support and fraud prevention activities	93	
5. Transfer of Temporary Emergency Food Assistance program	364	
6. Greater Avenues for Independence	618	
7. Foster Family Home and Small Family Home Insurance Fund	388	
8. Data processing equipment	101	
9. Provision of bilingual services	21	
10. County automation and fraud prevention activities	729	
11. Community Care Licensing—establishment of permanent positions	1,498	
12. Disability Evaluation Division—increase in state program	248	
13. Other	146	
Total		4,760
1987–88 expenditures (proposed)		$72,022
Changes from 1986–87:		
Amount		–$6,588
Percent		–8.4%

Proposed Position Changes

The budget requests authorization for 3,807.5 positions in 1987–88. This is a net increase of 51.5 positions, or 1.4 percent. The proposed net increase reflects an increase of 143 positions and a decrease of 91.5 positions. The single largest increase—43.1 positions—is due to continuation of specified positions in the Community Care Licensing Division necessary for the implementation of several pieces of legislation. Most of the decrease—60.3

DEPARTMENTAL SUPPORT—Continued

positions—reflects decreased workload in the Disability Evaluation Division. Table 3 displays the position changes proposed for 1987–88.

Table 3
Department of Social Services
Proposed Position Changes
1987–88

Program	*Existing Positions*	*Reductions*	*Additions*	*Total Proposed Positions*	*Net Changes Amount*	*Net Changes Percent*
AFDC-FG/U	291.6	−11.2	10.3	290.7	−0.9	−0.3%
Employment Programs	46.6	—	11.0	57.6	11.0	23.6
GAIN	(36.6)	(—)	(11.0)	(47.6)	(11.0)	(30.0)
WIN-Demo	(10.0)	(—)	(—)	(10.0)	(0)	(0)
AFDC-FC	50.2	−0.8	28.6	78.0	27.8	55.4
AFDC-Child Support Enforcement	63.5	−0.6	6.6	69.5	6.0	9.4
SSI/SSP	10.5	—	—	10.5	—	—
Special Adult programs	3.5	—	—	3.5	—	—
Food Stamps	286.1	−10.5	23.2	298.8	12.7	4.4
Refugee programs	79.5	−0.3	2.0	81.2	1.7	2.1
Cash Assistance	(25.2)	(−0.3)	(1.0)	(25.9)	(0.7)	(2.7)
Social Services	(14.0)	(—)	(0.5)	(14.5)	(0.5)	(3.5)
Targeted Assistance	(40.3)	(—)	(0.5)	(40.8)	(0.5)	(1.2)
Disability Evaluation	1,913.2	−60.3	9.8	1,862.7	−50.5	−2.6
In-Home Supportive Services	43.5	−0.1	1.0	44.4	0.9	2.0
Child Welfare Services	65.2	—	—	65.2	—	—
County Services Block Grant	14.6	—	0.2	14.8	0.2	1.3
Adoptions	147.8	−2.9	0.2	145.1	−2.7	−1.8
Maternity Care	0.7	—	—	0.7	—	—
Deaf Access	4.7	—	—	4.7	—	—
Child Abuse Prevention	33.4	−2.1	3.0	34.3	0.9	2.7
Community Care Licensing	589.2	−0.8	43.1	631.7	42.3	7.2
Services to other agencies	111.9	−1.9	4.0	114	2.1	1.9
Totals	3,756.0	−91.5	143.0	3,807.5	51.5	1.4%

ANALYSIS AND RECOMMENDATIONS

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

- An increase of $5 million ($346,000 General Fund) due to transfer of the Temporary Emergency Food Assistance program from the Department of Education to the Department of Social Services.
- An increase of $1.2 million ($618,000 General Fund) for the GAIN program to add 1 support position and extend 10 limited-term positions into the budget year.
- An increase of $1.5 million from the General Fund to convert 26 limited-term Community Care Licensing positions to permanent status and to continue 13.5 positions for one year.
- An increase of $1.5 million ($729,000 General Fund) for increased county automation and fraud prevention activities.
- An increase of $915,000 ($248,000 General Fund) to provide for increased workload and medical costs as a result of the settlement in the *Visser v. Kizer* court case.
- An increase of $886,000 ($485,000 General Fund) for continuation of (1) 18 limited-term positions in the Foster Care Rates Bureau and (2)

1.5 positions for foster care rate appeals.
- An increase of $512,000 ($280,000 General Fund) to implement various legislative measures regarding provision of bilingual services, child abuse prevention training, and hearing officer upgrades.
- An increase of $634,000 ($388,000 General Fund) for operation of the Foster Family Home and Small Family Home Insurance Fund.
- An increase of $125,000 ($101,000 General Fund) for purchase of additional data processing equipment.
- An increase of $68,000 (federal funds) for additional refugee statistical reporting requirements.
- An increase of $40,000 (General Fund) to review county contracts for provision of In-Home Supportive Services.
- A net increase of $392,000 ($93,000 General Fund) for child support and fraud prevention activities.
- A decrease of $2.2 million (federal funds) due to (1) decreased workload in the Disability Evaluation Division (DED) and (2) the redirection of funds to establish an overtime blanket to process the fluctuating, ongoing DED workload.
- A decrease of $147,000 ($89,000 General Fund) due to efficiencies resulting from the office automation project.

Enhanced Federal Funding For SAWS Is Unlikely

We recommend that the Legislature adopt supplemental report language requiring DSS to report on whether the Statewide Automated Welfare System will be cost-effective based on data from the San Diego automated intake and benefit computation pilot project.

The 1987–88 budget proposes a total of $13.4 million ($5.3 million General Fund) to support county costs associated with the development of the Statewide Automated Welfare System (SAWS) project. In addition, the budget requests $294,000 ($108,000 General Fund) in order to continue seven limited-term positions within the department that work on SAWS. The purpose of the project is to automate county welfare department operations in a manner that allows local control over the actual design and operation of the computer system.

The budget assumes that the federal government will fund 50 percent of these automation costs. The federal government, however, will fund 90 percent of these costs if it has approved a state's proposal for a statewide automated system. During the design of SAWS, the department attempted to obtain this higher level of federal funding in order to reduce the cost of the project to the state and county governments.

The DSS advises, however, that the federal government probably will not approve the state's request for enhanced funding. According to the department, the federal government does not consider the SAWS approach—where counties are free to design local computer systems within the framework provided by DSS—to be a *statewide* computer system.

The DSS estimates that the cost of SAWS will total roughly $200 million when complete. Since the state's share will likely total at least 25 percent of that amount, or $50 million, we believe that the Legislature needs information on the costs and benefits of the proposed system before large amounts of General Fund monies are invested.

In light of the significant fiscal effects of this project, DSS needs to carefully plan the next steps in the design of SAWS. The department is beginning a four-county pilot of the main SAWS component—automated intake and benefit computation. While we believe that automating these

DEPARTMENTAL SUPPORT—Continued

activities will result in administrative savings, there are a number of ways to approach the task. The pilot project will test one such approach. A slightly different approach has been implemented already in San Diego County. According to DSS, San Diego County will complete a post-implementation evaluation of this project by December 1987. The evaluation will examine the cost-effectiveness of the San Diego approach to automation.

We think the findings from San Diego will provide valuable insight into the cost-effectiveness of both the San Diego and the state's pilot project approach to automating welfare department operations. The two approaches are sufficiently similar that the findings from San Diego will generally apply to the state's pilot, as well. We recommend approval of the four-county pilot; we also think that the results from San Diego will allow any adjustments that might be needed to maximize the cost-effectiveness of SAWS.

Therefore, we recommend that the Legislature adopt supplemental report language requiring DSS to report on whether SAWS will be cost-effective from the state's perspective based on the cost and benefits of the San Diego automated intake and benefit computation pilot project.

The following language is consistent with this recommendation:

"The Department of Social Services shall report to the fiscal committees and the Joint Legislative Budget Committee by January 1987 on the costs and benefits of the automated intake and benefit computation pilot project conducted in San Diego. This report also shall discuss the implications of the results in San Diego on the proposed design of the Statewide Automated Welfare System (SAWS) project. The department shall use the data from San Diego to project the cost-effectiveness of SAWS to the state."

Funds for Increased Day Care Licensing Should be Budgeted in This Item

We recommend that $951,000 be transferred from Item 5180-151-001 to this item in order to handle increased day care licensing workload which will result from implementation of the GAIN program. (Increase Item 5180-001-001 by $951,000.)

In our analysis of the budget for the Greater Avenues for Independence (GAIN) program, we recommend that $951,000 be transferred from Social Services programs (Item 5180-151-001) to departmental support (Item 5180-001-001). We make this recommendation in order to more properly reflect where funds for day care licensing should be budgeted. Accordingly, we recommend that $951,000 be transferred from Item 5180-151-001 to the departmental support budget.

Saturated Work Initiative Model

Chapter 1314, Statutes of 1985, requires DSS to report to the Legislature on the success of San Diego County's Saturated Work Initiative Model (SWIM) project in helping AFDC recipients find a job and become self-supporting. The legislation also requires the Legislative Analyst to comment on the report's findings and conclusions. The department issued its first report in December 1986. A final report is due in December 1987.

The design of the SWIM project is quite similar to that of the GAIN program, with two major differences. First, the two programs provide services in a different order. The GAIN program provides education and job search training first and then provides skill training and work experience for those individuals who do not find a job during the job search component. The SWIM project begins with job search and work experience and delivers education and training for those who are not employed after job search. Second, the two programs serve slightly different groups of AFDC recipients. The SWIM project serves only AFDC *recipients* who are required to participate in job search activities. In contrast, the GAIN program will serve both recipients *and* new applicants for AFDC.

The first report on the SWIM project primarily discusses the status of the project and the design of the evaluation, and therefore, makes no findings or recommendations. According to the report, all participants who will comprise the experimental and control groups have been registered. As of October 1986, members of the experimental group were receiving services or had completed participation requirements. Because of the design of the evaluation, members of the control group are receiving no special services. During the next year, the employment and earnings histories of participants in both groups will be measured. The December 1987 report will discuss their experience and evaluate the effectiveness of SWIM services. We will address these issues in our *Analysis of the 1988–89 Budget.*

Department of Social Services

AID TO FAMILIES WITH DEPENDENT CHILDREN

Item 5180-101 from the General Fund and the Federal Trust Fund — Budget p. HW 151

Requested 1987–88	$1,985,342,000 [a]
Estimated 1986–87	1,952,302,000
Actual 1985–86	1,789,787,000
Requested increase $33,040,000 (+1.7 percent)	
Total recommended increase	$23,400,000

[a] Includes $34,215,000 in Item 5180-181-001 (c) to provide a 3.6 percent cost-of-living adjustment effective January 1, 1988.

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-101-001—Payments for children	General	$1,951,127,000
5180-101-890—Payments for children	Federal	(1,929,487,000)
5180-181-001 (c)—Cost-of-living adjustment	General	34,215,000
5180-181-890—Cost-of-living adjustment	Federal	(37,949,000)
Total		$1,985,342,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Aid to Families with Dependent Children—Family Group (AFDC-FG) Caseload. Recommend the Department of So- 730

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

cial Services advise the fiscal committees of its plan to incorporate additional economic and noneconomic factors in its May revision estimate of AFDC-FG caseloads.

2. Grant Savings From Fraud Reduction and Other Activities. Recommend the Department of Social Services provide the fiscal committees with specified information documenting a proposed increase in AFDC grant savings. 732
3. ***Greater Avenues for Independence (GAIN) Grant Avoidance Savings. Increase Item 5180-101-001 by $23.4 million and Item 5180-101-890 by $27.4 million.*** Recommend augmentation of $54.8 million ($23.4 million General Fund, $27.4 million federal funds) budgeted as grant avoidance savings resulting from the GAIN program because the department cannot provide data to show that these savings can reasonably be expected to materialize. 734
4. Adoption Assistance Programs. Recommend that the Legislature adopt supplemental report language requiring the department to collect specific information on the Adoption Assistance programs. 736

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 498,800 families each month will receive grants through this 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 78,200 families each month will receive grants through this 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 under 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 39,600 children each month will receive grants through this program.

In addition, the Adoption Assistance program provides cash grants to parents who adopt children who have special needs. In the current year, an average of 4,000 children each month will receive assistance through this program.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures of $1,985,342,000 from the General Fund for AFDC cash grants in 1987–88. This amount includes $1,951,127,000 in Item 5180-101-001 and an additional $34,215,000 requested in Item 5180-181-001 (c) to provide a 3.6 percent cost-of-living adjustment (COLA) effective on January 1, 1988 to AFDC-FG and AFDC-U grants. The

Table 1
Expenditures for AFDC Grants by Category of Recipient
1985-86 through 1987-88
(dollars in thousands)

Recipient Category	*Actual 1985-86* General	*Actual 1985-86* Federal	*Actual 1985-86* County	*Actual 1985-86* Total	*Estimated 1986-87* General	*Estimated 1986-87* Federal	*Estimated 1986-87* County	*Estimated 1986-87* Total	*Proposed 1987-88* [a] General	*Proposed 1987-88* [a] Federal	*Proposed 1987-88* [a] County	*Proposed 1987-88* [a] Total
Family Group	$1,329,759	$1,555,878	$158,321	$3,043,958	$1,434,894	$1,572,933	$173,031	$3,180,858	$1,443,179	$1,571,231	$174,181	$3,188,591
Unemployed parent	281,094	325,474	33,514	640,082	286,323	357,112	34,566	678,001	285,910	350,164	34,539	670,613
Foster Care [b]	231,687	78,250	12,371	322,308	269,214	83,523	14,428	367,165	292,948	89,056	15,703	397,707
Adoption program	9,153	1,401	—	10,554	12,107	3,936	—	16,043	14,851	5,638	—	20,489
Child support incentive payments to counties	10,298	20,799	−31,097	—	15,530	22,759	−38,389	—	17,586	23,815	−41,401	—
Child support collections	−72,204	−76,419	−8,477	−157,100	−65,866	−69,184	−7,713	−142,763	−69,132	−72,468	−8,078	−149,678
Subtotals	$1,789,787	$1,905,383	$164,632	$3,859,802	$1,952,302	$1,971,079	$175,923	$4,099,304	$1,985,342	$1,967,436	$174,944	$4,127,722
AFDC cash grants to refugees												
Time-expired	(135,085)	(148,888)	(16,302)	(300,275)	(154,007)	(177,564)	(18,572)	(350,143)	(174,707)	(201,430)	(21,069)	(397,206)
Time-eligible	—	(91,673)	—	(91,673)	—	(85,328)	—	(85,328)	—	(79,263)	—	(79,263)
Totals	$1,789,787	$1,905,383	$164,632	$3,859,802	$1,952,302	$1,971,079	$175,923	$4,099,304	$1,985,342	$1,967,436	$174,944	$4,127,722

[a] Includes 3.6 percent cost-of-living adjustment effective January 1, 1988.
[b] Does not include reimbursements from the State Department of Education for severely emotionally disturbed children.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

budget does not propose to provide a COLA in the rates paid to foster care providers. The total General Fund request for AFDC grants represents an increase of $33.0 million, or 1.7 percent, from estimated 1986–87 expenditures.

As shown in Table 1, total expenditures from *all funds* for AFDC cash grants are budgeted at $4.1 billion in 1987–88. This is $28.4 million, or 0.7 percent, above estimated current-year expenditures.

The AFDC-FG program accounts for $3.2 billion (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 2 shows the factors resulting in the net increase of $33,040,000 in General Fund support proposed for the AFDC program in 1987–88. As the table shows, the largest cost *increases* projected for the budget year are attributable to:

- Anticipated increases in AFDC-FC caseloads ($23.7 million).
- Increasing AFDC-FG and AFDC-U caseloads projected for 1987–88 ($21.3 million).

Table 2

Proposed 1987–88 General Fund Changes for AFDC Grants (dollars in thousands)

	Cost	*Total*
1986 Budget Act		$1,874,108
Adjustments to Appropriation		
1. Caseload increase		
a. AFDC-FG and U	$35,641	
b. AFDC-FC		
1) Foster Family Home	11,411	
2) Group Home	2,897	
3) Other	1,302	
Subtotal		51,251
2. Court Cases		15,505
3. Fraud Early Detection/Prevention		1,865
4. Child support collections		11,143
5. Other adjustments		−1,570
Total adjustment to appropriation		78,194
1986–87 expenditure (revised)		$1,952,302
1987–88 Adjustments		
1. Statutory 1987–88 cost-of-living adjustment	$66,316	
Adjustment for January 1, 1988 effective date	−32,101	
Net cost-of-living adjustment		34,215
2. Caseload increase		
a. AFDC-FG and U	$21,327	
b. AFDC-FC		
1) Foster Home	10,166	
2) Group Home	3,208	
3) SED Children	11,560	
4) Other	−1,200	
Subtotal		45,061
3. State and federal legislation		
a. Ch 1075/86 (Supplemental Payment)	2,231	

b. Ch 1441/84 (Technical Overpayment)	9	
c. Ch 1151/83 (Bonus Child Support Incentive)	384	
d. HR 4179 DEFRA	−112	
Subtotal		2,512
4. Court cases		−2,600
5. Increased Grant Savings/Fraud Detection		
a. Fraud Early Detection/Prevention	−5,670	
b. Asset Clearance Match	263	
c. Income/Eligibility Verification	−2,384	
d. Greater Avenues for Independence	−40,205	
Subtotal		−47,996
6. Child support collections	−3,266	
7. Child support incentives		1,572
8. Other adjustments		3,542
Total adjustments		33,040
1987–88 expenditure (proposed)		$1,985,342
Change from 1986 Budget Act:		
Amount		$111,234
Percent		5.9%
Change from 1986–87 estimated expenditure:		
Amount		$33,040
Percent		1.7%

These increases are partially offset by *reductions* attributable to:

- Grant savings resulting from implementation of the Greater Avenues for Independence (GAIN) program ($40.2 million).
- Grant savings resulting from increased welfare fraud detection and prevention activities ($5,670,000).
- Increased child support collections ($3,266,000).

Table 2 shows that the $33,040,000 increase proposed for 1987–88 represents a 1.7 percent increase over the department's revised estimate of General Fund expenditures in the current year. The level of expenditures proposed in the budget, however, is $111.2 million, or 5.9 percent, above the amount *appropriated* by the 1986 Budget Act.

Large Current-Year Increases in Estimated AFDC Grant Costs. The department estimates that General Fund expenditures in the current year will exceed the amount appropriated in the Budget Act by $78.2 million. This increase results from (1) AFDC caseloads that are 1.6 percent higher than the caseloads assumed in the 1986 Budget Act ($35,641,000), (2) unbudgeted costs caused by a loss in federal funding for costs stemming from a judgment against the state in the *Simon v. McMahon* court case ($14.6 million), (3) higher-than-anticipated increases in foster care caseloads ($15.6 million), and (4) lower-than-anticipated child support collections ($11.1 million).

Caseloads and Grants

Modest Caseload Increases. Table 3 shows that in 1987–88 AFDC caseloads are expected to increase by 13,240 persons, or 0.8 percent, from the revised estimate of caseloads in 1986–87. As the table shows, this increase reflects an addition of 14,500 persons, or 1.1 percent, in the AFDC-FG program, a reduction of 5,300 persons, or 1.5 percent, from the AFDC-U caseload, and an increase of 3,500 children, or 8.8 percent, in the AFDC-FC program.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Table 3

Aid to Families with Dependent Children
Average Number of Persons Receiving Assistance Per Month
1985–86 through 1987–88

Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Change from 1986–87*	
				Number	*Percent*
AFDC-Family Group	1,291,810	1,329,500	1,344,000	14,500	1.1%
AFDC-Unemployed Parent	343,810	357,700	352,400	−5,300	−1.5
AFDC-Foster Care	36,119	39,600	43,100	3,500	8.8
Adoption Assistance program	3,399	4,000	4,540	540	13.5
Refugees [a]					
—Time-eligible	(58,110)	(58,800)	(55,800)	(−3,000)	−5.1
—Time-expired	(166,450)	(185,500)	(206,300)	(20,800)	11.2
Totals	1,675,138	1,730,800	1,744,040	13,240	0.8%

[a] Grants to refugees who have been in the United States less than 31 months (time-eligible) are funded entirely by the federal government. Time-expired refugees—those who have been in the United States longer than 31 months—may qualify for and receive AFDC grants supported according to the normal sharing ratio.

Maximum Payment Levels. Table 4 shows the maximum grant levels in 1986–87 for selected family sizes under the family group and unemployed parent components of the AFDC program. The table also shows the maximum grant levels for 1987–88, based on the cost-of-living adjustment (COLA) proposed in the budget.

Table 4

Maximum AFDC-FG and AFDC-U Grant Levels
1985–86 through 1987–88

Family Size	*1985–86*	*1986–87*	*1987–88 [a]*	
			Amount	*Change*
1	$288	$303	$314	$11
2	474	498	516	18
3	587	617	639	22
4	698	734	760	26
5	796	837	867	30

[a] Represents benefit levels *after* the proposed 3.6 percent cost-of-living adjustment takes effect on January 1, 1988.

State law requires that AFDC grants be increased on July 1 of each year in order to adjust for the effects of inflation on the purchasing power of the grants. Under current law, AFDC COLAs are based on the increase in the California Necessities Index (CNI). The 1987–88 budget proposes a half-year COLA that would increase grants by the increase in the CNI—estimated at 3.6 percent—effective January 1, 1988.

ANALYSIS AND RECOMMENDATIONS

AFDC Caseload Estimating Process Needs Further Refinement

We recommend that prior to budget hearings, the department advise the fiscal committees of its plan to incorporate additional economic and noneconomic factors in its May revision estimate of AFDC-FG caseloads.

The budget proposes total expenditures of $3.2 billion (including the cost of the proposed 3.6 percent half-year COLA) in 1987–88 for cash grants to AFDC-FG recipients. This proposal assumes an average monthly "basic" caseload of 506,400 AFDC-FG cases, which represents 1,350,600 persons on aid. (The basic caseload represents the department's estimate of caseload before including effects of policy or program changes.) This is an increase of 1.5 percent above estimated current-year basic caseloads.

Compared to recent experience, a caseload increase of 1.5 percent would represent a significant reduction in the growth of the AFDC-FG program. For example, the number of persons on aid increased 3 percent between 1984–85 and 1985–86. Moreover, the department estimates that AFDC-FG cases will increase by 2.8 percent between 1985–86 and the current year. Thus, 1987–88 caseloads are projected to grow at roughly half the existing rate of increase. If recent caseload trends prevail, however, caseload growth will add $27 million to General Fund expenditures in the budget year.

DSS Improves Projection Techniques. The department advises that its caseload projections for 1987–88 are based solely on anticipated changes in the state's population. According to DSS, that portion of the population that is most likely to receive AFDC-FG benefits—women aged 20 to 44—is expected to grow at a significantly slower rate during the next few years. In addition, the department states that the ethnic makeup of this population is expected to change as well: the proportion of white and Asian women in this group is projected to decrease, while Hispanic and black representation is expected to increase.

The DSS also anticipates that the *rate* at which these different groups receive aid will change. The department cites data demonstrating a changing caseload mix between 1979 and 1982 as evidence that the rates at which different ethnic groups receive AFDC-FG benefits continues to change over time. By projecting these three trends—slowing population growth, changing ethnic composition of the population, and changing rates of AFDC-FG grant recipiency—the department determined that the *growth* in AFDC-FG cases would slow dramatically.

This method of projecting caseloads represents a significant departure from the past. Previously, the DSS based its caseload projections solely on past caseload trends. As a result, the department did not take into consideration those factors that *caused* changes in the growth of the program. We believe the department should be commended for taking a major step toward understanding the trends that *cause* change in the program.

Improvements Still Needed. While we recognize that the department has improved its estimating techniques for the AFDC-FG caseload, we believe that further refinements are needed before the Legislature can feel confident that this methodology provides reliable estimates. Specifically, we believe the following steps should be taken:

- ***The Department Should Obtain More Recent Data on the Ethnic Composition of the AFDC-FG Caseload.*** The department's most recent information dates from 1982. Based on this data, the DSS estimated the ethnic composition of the caseload in 1987–88. The department, however, had to make arbitrary assumptions regarding the rate of change in ethnic composition in order to obtain this projection. We believe that more recent data on the ethnic mix of the caseload would substantially improve the likelihood that the department's budget estimate will be reliable. The DSS advises that it is collecting more recent data, which will be available to refine the budget-year estimate for the May revision.
- ***The Department Should Investigate the Impact of Other Economic and Noneconomic Factors on Regional AFDC-FG Caseload Trends.***

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

Our analysis suggests that a number of other factors such as changes in refugee caseloads and economic conditions significantly affect program growth. In addition, our analysis suggests that an understanding of the causes of program growth can only be obtained by analyzing *regional* caseload trends. In some respects, the state AFDC program is an aggregation of many regional programs, influenced by local economic conditions, population growth, and attitudes towards work and welfare. Because of the substantial diversity in the state, no one model can aptly describe the different trends that occur in all areas. Therefore, if the DSS wants to further improve its budget estimates, we believe that its investigation should include an analysis of regional caseload trends.

We think these steps are desirable. Not only will the department's budget estimates improve, but so will its understanding of how the AFDC-FG program works. While the department's efforts to this point have improved the understanding of this program, we feel further investigation is warranted. Therefore, we recommend that prior to budget hearings, the department advise the fiscal committees on its plan to incorporate additional economic and noneconomic factors in its May revision estimate of AFDC-FG caseloads.

Grant Savings Are Overestimated

We recommend that prior to budget hearings, the department provide the fiscal committees with (1) additional documentation justifying the projected increase in the productivity of county fraud early detection programs and (2) an unduplicated count of total grant savings that realistically can be attained by specified activities.

The budget contains at least seven program activities that the department estimates will result in savings to the AFDC program. These savings will result due to (1) a reduction in the amount of grants provided to some recipients or (2) a reduction in the expected AFDC caseloads. The budget separately identifies five of these activities, which will result in total savings of $194 million in AFDC grants ($84.2 million General Fund). This represents 4.6 percent of AFDC grants budgeted for 1987–88. The department assumes that the budgetary impact of the other two activities is included in the estimate of the basic caseload costs. The five activities for which the department has separate fiscal estimates are as follows:

- ***Greater Avenues for Independence (GAIN).*** The budget estimates grant savings of $129.9 million in all funds ($55.6 million General Fund) resulting from the GAIN program.
- ***Fraud Early Detection (FRED) Program.*** The FRED program is designed to detect and prevent fraud at the time an individual applies for AFDC and/or food stamp benefits. The budget projects grant savings totaling $48.4 million ($21.7 million General Fund) due to this program.
- ***Asset Clearance Match.*** This activity reviews Franchise Tax Board files for unreported interest or dividends owed by AFDC recipients. The budget estimates grant savings of $10 million ($4.5 million General Fund) due to these matches.
- ***Income and Eligibility Verification System (IEVS).*** A federally mandated asset and income verification system is anticipated to save $5.4 million ($2.4 million General Fund).

- ***Statewide Automated Welfare Systems.*** Automation of a centralized data base designed to reduce the incidence of a person collecting AFDC simultaneously in two counties is estimated to save $208,000 ($93,000 General Fund).

In addition to these five activities, there are two additional activities that result in grant savings, as follows:

- ***Payment Verification System.*** This system checks AFDC recipient records to ensure that specified government benefits, such as Unemployment Insurance, were reported by the recipient.
- ***Integrated Earnings Clearance.*** The earnings clearance system notifies counties of recipient earnings that exceed a specified level in order to ensure the income was reported by the recipient.

Based on our review, we have the following concerns with the department's estimate of savings.

FRED Savings Are Based on Overly Optimistic Assumption. The grant savings attributed to FRED are based on DSS' assumption that county fraud investigators will increase the number of cases terminated from aid by 1.5 cases per month during 1986–87 and an additional 1.5 cases per month in the budget year. This would be a 40 percent increase in productivity above the level achieved during 1985–86, and result in an additional $12.6 million ($5.7 million General Fund) in budgeted savings for 1987–88.

The department advises that this assumption is based on productivity increases experienced by three counties that first implemented the FRED program. According to DSS, county programs become more productive as they gain experience in detecting fraud. At the time this analysis was prepared, data that might confirm the department's expected productivity improvements during 1986–87 were not available. The DSS advises this information will be available in early March. In light of the large two-year projected increase in grant savings, however, we cannot recommend approval of the proposed increase in grant savings until actual data confirm the trend toward higher productivity. For this reason, we recommend the department submit to the fiscal committees prior to budget hearings (1) the monthly amount of grant savings due to FRED that occurred during 1986 and (2) an assessment of whether actual savings achieved during the first six months of 1986–87 is consistent with the revised current-year projection of FRED investigator productivity.

The Budget Overestimates the Net Impact of All These Activities. The department indicates that each of the savings estimates discussed above are determined separately from each other. According to the department, the grant savings included in the budget represent only the *additional* savings that reasonably can be attributed to each activity.

Nevertheless, our analysis indicates that the budget double-counts the grant savings resulting from the reduction of an unknown number of cases. This is because the department's estimates do not explicitly consider the effect that each fraud reduction activity may have on the same individual. For example, the department believes that GAIN will deter an individual who works—but does not report earnings to the county welfare department—from applying for aid. This because the mandatory participation requirements of the GAIN program would make it difficult for a person to work and participate in the GAIN program. Without GAIN, the same individual might have applied for aid, but have had his or her unreported earnings detected by the Integrated Earnings Clearance system

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

or the FRED program. Because of the way the department estimated grant savings, the budget would count the savings from this person twice.

In addition, many of these activities are very similar in nature. The IEVS program, for instance, will verify recipient income and assets to ensure that all income is reported. The Integrated Earnings Clearance and Asset Clearance Match programs also verify this information. While DSS indicated that each estimate of grant savings constituted only the additional savings associated with each specific activity, the department could not provide data to document this claim.

We think the budget should reflect an estimate of grant savings that includes an unduplicated count of the *net* savings that realistically can be attained. Therefore, to ensure that grant savings are not overestimated, we recommend that prior to budget hearings, the department provide to the fiscal committees a reconciliation of its estimates of AFDC grant savings that result from specified program activities.

GAIN Grant Avoidance Estimate Lacks Credibility

We recommend an augmentation of $54.8 million ($23.4 million General Fund, $27.4 million federal funds) budgeted as grant avoidance savings resulting from the GAIN program because the department can provide no data to show that these savings can reasonably be expected to occur. (Increase Item 5180-101-001 by $23.4 million and Item 5180-101-890 by $27.4 million.)

As discussed above, the 1987–88 budget estimates that the GAIN program will result in AFDC grant savings that total $129.9 million ($55.6 million General Fund). Of this amount, $75.2 million in savings ($32.2 million General Fund) is due to individuals finding jobs as a result of education and training services provided under the program. The remaining $54.8 million ($23.4 million General Fund) is due to "grant avoidance" —savings resulting from people who do not apply for aid or who terminate aid rather than participate in the program.

The department's estimate of grant avoidance savings is based on its assumption that 6 percent of mandatory GAIN participants will (1) never apply for aid or (2) terminate aid during the year. According to the department, these families have other sources of income on which they can depend in lieu of collecting AFDC benefits. For example, the department believes that families receiving income that is not reported for tax purposes would be discouraged from applying for grants due to GAIN participation requirements.

We believe that the department's arguments are not sufficiently convincing to warrant a reduction in anticipated AFDC grant expenditures of $54.8 million. First, the department could not demonstrate that *any* grant avoidance will take place. When asked to justify its estimate, DSS could not provide data to substantiate its claim. Indeed, we believe it is possible that the GAIN program may *increase* AFDC caseloads in the short run if individuals who would not ordinarily apply for aid register in order to take advantage of the program's training and education components.

Second, the department could not provide data indicating that 6 percent of all mandatory program participants is the appropriate figure to include in the budget. The department advises that its estimate represents an educated guess of the actual figure. The department further indicates that it does not expect to obtain actual data in the near future to substantiate its estimate. We believe the only possibility of obtaining actual data is through the study of the GAIN program by the Manpower Demonstration Research Corporation. At the earliest, however, this data will not be available until 1990.

Without data to buttress it assertions, the estimate of grant avoidance included in the 1987–88 budget is without foundation. Programs such as the Employment Preparation Program (EPP) have proven that the GAIN program can help reduce the level of AFDC expenditures by requiring participation in job search and training programs. We think that the 1987–88 savings estimate that is derived from the EPP experience has a solid analytical foundation. The department's assertion that 6 percent of the mandatory caseload—in addition to the savings demonstrated by EPP—will voluntarily terminate or be discouraged from applying for aid, however, has never been demonstrated.

Therefore, since there is no data to suggest that the $54.8 million savings included in the 1987–88 budget represents a realistic estimate of savings that will be realized, we recommend that the fiscal committees increase Item 5180-101 for the support of AFDC grants by $54.8 million ($23.4 million General Fund, $27.4 million federal funds).

ADOPTION ASSISTANCE PROGRAMS

The Department of Social Services currently administers two programs which assist in the adoption of children. The Aid for Adoption of Children (AAC) program provides cash grant payments to adoptive parents of children with "special needs." The payments are available for up to five years with the possibility of an extension if the child's special needs warrant it. The AAC program is funded solely from the General Fund. Currently, this program is being phased out and is being replaced by the federal Adoption Assistance Program.

The Adoption Assistance Program (AAP) was implemented in October 1982 by P.L. 96-272 and SB 14 to provide federal assistance to the states in the adoption of children with special needs. Under the AAP, assistance is not limited to five years. Instead, adoptive parents may receive assistance until their child is 18 years of age or until age 21, if the child has a chronic condition that requires extended assistance. All special needs children who received assistance for the first time after October 1982 fall under the AAP.

The adoption agency (state, county, or private) is responsible for determining the eligibility of the child for the AAP/AAC program and the amount and duration of the grant for the child. A child is determined to have special needs if he or she is legally free for adoption and, without assistance, would be difficult to place in an adoptive home for one of the following reasons:

- Age, three years or older.
- Race, ethnic background, color, or language.
- Physical, mental, emotional, or medical handicaps, or adverse parental background.
- Membership in a sibling group which should remain intact.

The needs of the child, resources of the family, and available community resources must be considered when determining the amount and duration of the grant. Decisions regarding the amount and duration of the grant must be agreed to by the parents.

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

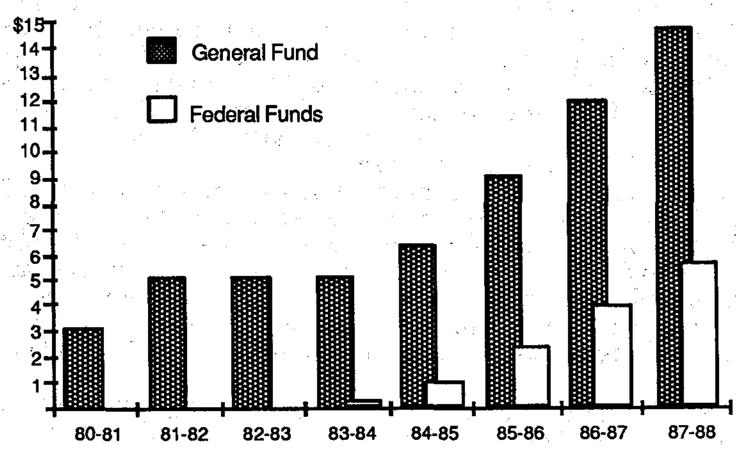
Adoption Assistance Programs Need Better Oversight

We recommend that the Legislature adopt supplemental report language requiring the department to collect specific information regarding the recipients of AAP/AAC and submit a report by December 1, 1987 with its conclusions and recommendations regarding the need for stricter standards for determining the amount and duration of the grant.

Based on our review, we have two concerns with the department's oversight of the program. First, the department has inadequate information to explain the reasons for the increase in costs associated with this program. Second, the department has not established guidelines for adoption workers to use when determining the amount and duration of the grant.

Chart 1

Adoption Assistance Program/Aid for Adoption of Children Expenditures by Fund (in millions)



Department Lacks Adequate Caseload and Grant Information. Chart 1 shows the growth in expenditures for the AAP/AAC program from 1980–81 through 1987–88. During this period, General Fund expenditures increased at an average annual rate of 26 percent. The budget estimates that costs will increase by 23 percent between the current and budget years.

The department indicates that this increase is due to growth in caseloads, grant amounts, and duration of payments. The department, however, has little information available to explain why the caseloads of this program are increasing. In fact, there is reason to believe that the caseloads of the AAC component of this program should be decreasing, not remaining constant as projected by the department. This is because this program began to phase-out in October 1982. Because the department has no available information on the AAC cases, there is no way to accurately identify the number of AAC cases that should be dropping from the current caseload.

The department also lacks adequate information on the causes for the current or projected increases in grant costs for this program. The department estimates that the average monthly grant for AAP/AAC will increase by nearly 13 percent during 1987–88. Such an increase could be due to several factors such as (1) an increasing number of children with more serious handicaps, (2) an increase in the number of foster parents who adopt children, or (3) lack of guidance for social workers in determining grant size and duration. The department, however, does not know what factors explain the increasing grant costs because it has no information regarding the characteristics of recipient families, the resources available to the families, or the particular needs of the child.

Department Lacks Guidelines for Grant Awards. Currently, there are no specific standards for adoption workers to use when determining the amount and duration of the grant award. The only requirement is that the resources of the family and the community be "considered" in determining the grant amount. This lack of guidelines may result in inequitable grant awards to adoptive parents. To the extent that increasing costs are the result of inappropriate grant awards, a stricter standard for awards may be necessary.

Although current law prohibits the department from using an income test in order to determine eligibility for the AAP/AAC program, the department is allowed to use an income test in order to determine the amount and duration of the grant award. We believe that such guidelines would assure a more equitable distribution of grant payments and would allow the department some control over the costs of this program.

Department Needs Better Information and Guidelines. Based on our analysis, we conclude that the lack of information regarding the AAP/AAC program and the lack of guidelines for adoption workers makes it difficult for the department to assure equitable assistance for adoptive parents and to accurately assess and control the costs of the program. In order to address these problems, the department should collect and analyze information regarding the recipients of assistance under the AAP/AAC program. This information should include the following for recipients of each program:

- Range of grant amount.
- Reason for payment.
- Characteristics of those families and children receiving payments,

AID TO FAMILIES WITH DEPENDENT CHILDREN—Continued

including the number of children who are classified as severely emotionally disturbed.

- Length of payment.

Based on analysis of this information, the department should provide the Legislature with recommendations regarding the need for stricter standards for determining the amount and duration of the grant award.

To ensure that this occurs, we recommend that the Legislature adopt the following supplemental report language:

"The Department of Social Services shall report to the Legislature by December 1, 1987 on the characteristics of recipients of assistance under the Adoption Assistance Program/Aid for Adoption of Children program. The report shall include, but not be limited to, the following information, by program:

"• Range of grant amount payments.

"• Reason for payment.

"• Characteristics of those families and children receiving payments, including the number of children who are classified as severely emotionally disturbed.

"• Length of payment.

"Based on an analysis of this information, the report should include recommendations regarding the need for stricter standards for determining the amount and duration of the grant award."

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 1987–88	$1,768,251,000 [a]
Estimated 1986–87	1,637,517,000
Actual 1985–86	1,407,725,000
Requested increase $130,734,000 (+8 percent)	
Total recommended reduction	None

[a] This amount includes $41,822,000 proposed in Item 5180-181-001 (a) to provide a 3.6 percent cost-of-living increase, effective April 1, 1988.

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-111-001—Payments to aged, blind, and disabled	General	$1,726,429,000
5180-111-890—Payments to aged, blind, and disabled	Federal	(11,552,000)
5180-181-001 (a)—Payments to aged, blind, and disabled—COLA	General	41,822,000
5180-181-890—Payments to aged, blind, and disabled—COLA, refugees	Federal	(134,000)
Total		$1,768,251,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Caseload Estimates. Recommend that the department advise the fiscal committees of its plan to incorporate additional factors in its May revision estimate of Supplemental Security Income/State Supplementary Program caseloads and average grant costs. Further recommend that the Legislature adopt supplemental report language that requires the department to establish a system for tracking applicants with Acquired Immune Deficiency Syndrome and AIDS-related conditions. 744
2. Continuing Disability Reviews. Recommend that the department advise the fiscal committees of its plan to incorporate additional factors in its May revision estimate of savings due to the resumption of continuing disability reviews. 747

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 or she is elderly, blind, or disabled and meets the income and resource criteria established by the federal government.

The federal government pays the cost of the SSI grant. California has chosen to supplement the federal payment by providing an SSP grant. The SSP grant is funded entirely from the state's General Fund. In California, the SSI/SSP program is administered by the federal government through local Social Security Administration (SSA) offices.

During the current year, an estimated 698,566 persons will receive assistance each month under this program.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes an appropriation of $1.8 billion from the General Fund for the state's share of the SSI/SSP program in 1987–88. This is an increase of $130.7 million, or 8 percent, above estimated current-year

Table 1
SSI/SSP Expenditures
1985–86 through 1987–88
(dollars in thousands)

Category of Recipient	*Actual 1985–86*	*Est. 1986–87*	*Prop.[a] 1987–88*	*Percent Change From 1986–87*
Aged	$836,472	$936,438	$988,666	5.6%
Blind	90,347	100,254	107,384	7.1
Disabled	1,709,839	1,927,195	2,064,416	7.1
Totals	$2,636,658	$2,963,887	$3,160,466	6.6%
Funding Sources				
General Fund	*$1,407,725*	*$1,637,517*	*$1,768,251*	*8.0%*
Federal Funds[b]	*1,228,933*	*1,326,370*	*1,392,215*	*5.0*

[a] Includes 3.6 percent COLA, effective April 1, 1988.
[b] Includes federal funds to support SSP costs for refugees.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

expenditures. The budget also assumes that federal expenditures for the SSI/SSP program will be $1.4 billion. This is an increase of $65.9 million, or 5 percent, above estimated federal expenditures in the current year. The budget estimates that combined state and federal expenditures for the SSI/SSP program will be $3.2 billion, which is an increase of $196.6 million, or 6.6 percent, above estimated current-year expenditures.

Table 1 shows SSI/SSP expenditures, by category of recipient and by funding source, for the years 1985–86 through 1987–88.

Table 2 shows the budget adjustments that account for the increase in SSI/SSP expenditures proposed for 1987–88. Significant changes proposed in General Fund costs include:

- A $95.8 million increase to fund the full-year cost in 1987–88 of the 5.1 percent COLA provided for SSI/SSP grants on January 1, 1987.
- A $41.8 million increase to provide a 3.6 percent COLA for grants, beginning April 1, 1988.
- A $34.7 million decrease due to increased federal funds available to provide a 3.3 percent COLA on January 1, 1988 for SSI grants.
- A $16.2 million decrease due to increased social security benefits, which increase beneficiary income, resulting in reduced grant costs for SSI/SSP.
- A $41.9 million increase to fund an estimated 2.6 percent caseload growth.
- A $5.1 million increase because the federal government has ceased to provide reimbursements to the state for errors made by the federal government in administering the SSI/SSP program.
- A $2.2 million decrease in caseload because the state has resumed its review of the eligibility of disabled SSI/SSP recipients.

Table 2
SSI/SSP
Proposed Budget Changes
1987–88
(dollars in thousands)

	General Fund	*Federal Funds*[a]	*Total*[a]
1986–87 expenditures (revised)	$1,637,517	$1,326,370	$2,963,887
Proposed Changes:			
1. Basic caseload increases	41,939	38,265	80,204
2. Cost-of-living adjustment—1986–87			
a. Full-year cost of 1/87 grant increase	95,795	9,440	105,235
3. Cost-of-living adjustment (General Fund)—1987–88			
a. Statutory 3.6 percent grant increase (1/88)	(83,462)	(134)	(83,596)
b. Adjustment for April 1, 1988 effective date	(−41,640)	(—)	(−41,640)
c. Net cost-of-living adjustment	41,822	134	41,956
4. Cost-of-living adjustment (Federal funds)—1987–88			
a. Estimated federal SSI increase—(1/88)	−34,733	34,733	—
b. Estimated social security benefit increase (1/88)	−16,150	−10,162	−26,312
Subtotals	($128,673)	($72,410)	($201,083)

5. Program adjustments			
a. Decreased federal reimbursement for errors	5,152	−5,152	—
b. Resumption of disability reviews	−2,188	−2,158	−4,346
c. Court case	−91	−68	−159
d. Other	−812	813	1
Subtotals	($2,061)	(−$6,565)	(−$4,504)
1987–88 expenditures (proposed)	$1,768,251	$1,392,215	$3,160,466
Change from 1986–87:			
Amount	$130,734	$65,845	$196,579
Percent	8.0%	5.0%	6.6%

[a] Includes federal funds of $10,633,000 in 1986–87 and $11,552,000 in 1987–88 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.

With one exception, the eligibility requirements for the SSI/SSP program are essentially unchanged from the current year. The Deficit Reduction Act of 1984 (DEFRA) increased the limit for personal and real property by $100 for individuals and $150 for couples for each year of a five-year period beginning January 1, 1985. This provision therefore will increase the resource limits which individuals may meet and remain on aid to $2,000 and $3,000, respectively, by 1989.

Status of the Current-Year Budget

The department's latest estimate of General Fund costs for the SSI/SSP program in 1986–87 is $1,637,517,000. This is $37.2 million, or 2.3 percent, above the amount appropriated in the 1986 Budget Act. The major factors that account for the increase are as follows:

- Costs have increased by $10.3 million due to a 0.7 percent increase in caseload above the level assumed in the Budget Act.
- Costs have increased by $26 million because the amount of federal funds provided for COLAs to SSI/SSP grant recipients and the increase in social security benefits on January 1, 1987 were less than anticipated. The budget assumed an increase of 3 percent for both the SSI grant and social security benefits, while the actual increase on January 1, 1987 was 1.3 percent.
- Costs have increased by $5 million due to an increase in the average SSI/SSP grant amount.
- Costs have increased by $2.1 million because the amount of savings resulting from disability reviews was less than anticipated.
- Costs have decreased by $5 million due to a reduction in the cost of a court case (*Livermore v. Heckler*).

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

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 1987 an aged or disabled individual can receive up to $560 per month, while a blind individual can receive up to $627. 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.

Potential Supplemental Rates for Board and Care Facilities. The highest maximum grant level is provided to recipients who reside in nonmedical board and care facilities. In 1987, an individual in such a facility can receive up to $632 per month. During the most recent period for which data are available—December 1985 through November, 1986—General Fund payments to recipients in these facilities totaled $200.9 million, or approximately 13 percent, of total SSP grants to all recipients for the same period.

Maximum grants for board and care facilities may increase, depending upon the Legislature's action on the 1987–88 budget and legislation to establish supplemental rates for those facilities. Chapter 1127, Statutes of 1985, required the Health and Welfare Agency to submit an implementation plan to the Legislature by December 1, 1986 that would establish three levels of care in board and care facilities that serve elderly persons. The legislation further required that the report include recommendations for (1) a supplemental rate structure for facilities providing higher levels of care and (2) appropriations in the 1987–88 budget to implement the levels of care system. Although the report has not yet been submitted to the Legislature, the department informed us that it has been completed, and was under review at the time this analysis was prepared. Legislation has been introduced (SB 50) to implement the three levels of care to the extent that funds are appropriated by the Budget Act for supplemental rates. The budget, however, does not propose funding for increased rates. Our review indicates that the General Fund (SSP) will bear the full cost if the Legislature proposes to fund supplemental rates because no additional federal SSI funds will be available for this purpose.

Federal and State COLA Requirements. Cost-of-living increases for the SSI/SSP grant are governed by both federal and state law. As regards federal law, 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. Table 3 shows that the SSP grant levels proposed in the budget exceed those required by federal law.

Existing state law requires that the total SSI/SSP payment levels be adjusted, effective January 1, 1988, based on the change in the California Necessities Index (CNI) during calendar year 1986. The Commission on State Finance is required to calculate the CNI and will announce the actual change in the CNI for calendar year 1986 during March 1987. The commission's calculation, therefore, will be available for use in calculating the *actual* grant adjustments required by current law in the budget year, prior to when the Legislature completes action on the budget.

Budget Proposes to Delay COLA. The budget assumes enactment of legislation that will delay the cost-of-living increase for SSI/SSP grants from January 1 until April 1, 1988. Accordingly, the budget proposes a 3.6 percent increase in the maximum SSI/SSP grants on April 1, 1988 although the federal government will provide a COLA, currently estimated at 3.3 percent, to the SSI portion of the grant on January 1, 1988.

Budget Proposes to Reduce SSP Grants. Instead of increasing the total grant amount by providing the federal COLA to recipients on January 1, 1988, the budget proposes to decrease the SSP portion of the grant by the amount of the increase in the SSI portion. Lowering the SSP grant results in a General Fund savings of $22.7 million. Table 3 shows that the state's SSP grants decrease from January through April due to the increase in the federal SSI amount.

The proposal to delay implementation of the SSI/SSP COLA until April 1, 1988 also results in additional savings of $19.1 million, for a total of $41.8 million of savings to the General Fund. (The proposal and our recommendation are discussed as part of our analysis of the COLAs proposed for the department's public assistance programs, Item 5180-181-001.)

Table 3

Maximum Monthly SSI/SSP Grant Levels
Calendar Years
1987 and 1988

		1988[b]		*Change from 1987 to*			
				January 1988		*April 1988*	
Category of Recipient[a]	*1987*	*January-March*[c]	*April-December*[d]	*Amount*	*Percent*	*Amount*	*Percent*
Aged or Disabled							
Individual							
Total Grant	$560	$560	$580	—	—	$20	3.6%
SSI	340	351	351	$11	3.2%	11	3.2
SSP	220	209	229	−11	−5.0	9	4.1
Couple							
Total Grant	1,039	1,039	1,076	—	—	37	3.6
SSI	510	527	527	17	3.3	17	3.3
SSP	529	512	549	−17	−3.2	20	3.8
Blind							
Individual							
Total Grant	627	627	650	—	—	23	3.7
SSI	340	351	351	11	3.2	11	3.2
SSP	287	276	299	−11	−3.8	12	4.2
Couple							
Total Grant	1,221	1,221	1,265	—	—	44	3.6
SSI	510	527	527	17	3.3	17	3.3
SSP	711	694	738	−17	−2.4	27	3.8
Aged or Disabled Individual Non-Medical Board and Care							
Total Grants	632	632	655	—	—	23	3.6
SSI	340	351	351	11	3.2	11	3.2
SSP	292	281	304	−11	−3.8	12	4.1

[a] Unless noted, recipients are in independent living arrangements.
[b] Governor's Budget proposes to increase SSI/SSP grant level on April 1, 1988.
[c] Assumes a 3.3 percent increase in SSI grants, effective January 1, 1988.
[d] Assumes a 3.6 percent increase in the total SSI/SSP grant, effective April 1, 1988.

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

Estimate of SSI/SSP Caseload May Be Too Low

We recommend that prior to budget hearings, the department advise the fiscal committees of its plan to incorporate additional factors in its May revision estimate of SSI/SSP caseloads and average grant costs.

The budget proposes total expenditures of $3.2 billion for grants to SSI/SSP recipients (including the cost of the proposed 3.6 percent COLA that will take effect April 1, 1988). This proposal assumes an average monthly SSI/SSP caseload of 716,792, which is an increase of 2.6 percent above estimated current-year caseloads. Table 4 compares the projected caseload in each recipient category for 1986–87 and 1987–88.

Table 4
SSI/SSP
Average Monthly Caseload
1985–86 through 1987–88

Eligibility Category	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*
Aged	266,785	270,008	273,125	1.2%
Blind	19,439	20,000	20,600	3.0
Disabled	393,583	408,558	423,067	3.6
Totals	679,807	698,566	716,792	2.6%

Compared to the most recent actual experience, a caseload increase of 2.6 percent would represent a reduction in the growth of the SSI/SSP caseload. For example, Table 5 shows that the number of recipients increased 3.2 percent between the first six months of 1985–86 and the same period in 1986–87. Although this is only a difference of 0.6 percent above the level projected by the department, General Fund costs will increase by up to $16 million for 1987–88 if the caseload continues to grow at this accelerated rate.

Table 5
Actual Growth in SSI/SSP Caseload
July through December
1985–86 and 1986–87

Eligibility Category	*July–December 1985–86*	*July–December 1986–87*	*Percent Change From 1985–86*
Aged	265,877	270,149	1.6%
Blind	19,283	19,847	2.9
Disabled	390,153	406,850	4.3
Totals	675,313	696,846	3.2%

In addition, the department has not allowed for an increase in the average basic grant award between 1986–87 and the budget year. The average grant level increased in the current year, resulting in an additional $5 million of General Fund costs above the amount in the 1986 Budget Act. It is likely that the average grant will continue to increase in 1987–88, particularly due to the rapid growth in the disabled caseload which receives a higher maximum grant amount than the aged caseload. Therefore the proposed budget is likely to underfund SSI/SSP by at least an additional $5 million from the General Fund.

Upward Trend in Aged and Disabled Caseloads. The recent growth in the caseload—particularly evident in the current year—represents a change from prior years. For example, the disabled caseload declined from 1981 through 1983. Recently, however, it has been growing at a quickening pace. For the first six months of 1986–87, the disabled caseload increased by 4.3 percent above the level in the same period in 1985–86. The department, however, projects only a 3.6 percent growth in the disabled caseload from the current year to 1987–88. This is particularly significant because the disabled caseload is almost 60 percent of the total caseload. Moreover, while the number of aged SSI/SSP recipients was decreasing from 1980 to 1985, since March 1985 the number of aged recipients has been growing at a steadily increasing rate. To the extent that the department does not recognize these increases, the budget may be underfunded, as we discuss in the following pages.

Department of Social Services (DSS) Improves Projection Methodology. The department advises that its SSI/SSP caseload projections are based on (1) prior-year caseload growth and (2) anticipated changes in the state's population. As regards the aged caseload, the department has determined that growth in this caseload closely mirrors growth in the total aged population. As a result, the department projected the aged caseload based on growth in the total aged population. For the disabled population, the department based its caseload projection on actual caseload trends in 1984–85 and 1985–86. The department indicates that it may include other factors in its estimate of the disabled caseload for the May revision.

The method used to project the *aged caseload* represents a significant departure from the past. Previously, DSS based its caseload projections solely on past caseload trends, rather than considering factors that *caused* changes in caseload growth. To the extent that the department's new methodology considers underlying factors such as population growth, caseload projections are likely to improve. We believe the department should be commended for initiating this new approach.

While we recognize that the department has improved its estimating techniques, we believe that the department needs to consider the following factors about the SSI/SSP caseload before the Legislature can be confident that its methodology provides reliable estimates.

Extent of Caseload Growth Due to AIDS and Other Disabling Conditions Is Unknown. The causes of the accelerating growth in the disabled caseload are unknown. The department, and the federal Social Security Administration (SSA) speculate that the caseload has grown partially due to the slowness of the current disability review process. Under this review process, some SSI/SSP recipients are terminated from aid because they are no longer considered disabled as a result of an improvement in their medical condition. Although these disability reviews were resumed in early 1986, the SSA has sent fewer cases to the department for review than the state had expected to receive, and the rate of termination for those cases has been lower than anticipated.

Although the slowness of terminations contributes to the growing disabled caseload, it is likely that other factors also account for the growth

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

in this caseload. This is evident because the caseload began to increase prior to the moratorium on disability reviews. It is possible that more persons with specific disabilities are applying for SSI/SSP than in the past. For example, the disabled caseload may be growing as a result of the Acquired Immune Deficiency Syndrome (AIDS) epidemic. The SSA monitored SSI claims from individuals with AIDS for a period of two years. The SSA is currently monitoring the claims of those with AIDS-related conditions (ARC). The SSA indicates that the total number of claims by those with AIDS for SSI/SSP and Social Security Disability Insurance (SSDI) increased by 70 percent during the period November 1985 through October 1986, compared to the number of claims prior to November 1985. The SSA informs us that it is not continuing to maintain statistics on the number of persons with AIDS who apply for, or receive SSI.

In the past, more applicants with AIDS and ARC have applied for assistance under SSDI, than under SSI/SSP, because they had work histories which made them eligible for SSDI benefits. In the future, it is possible that an increasing number of individuals with AIDS and ARC will be eligible for SSI/SSP rather than SSDI. This is because the proportion of AIDS and ARC cases transmitted as a result of needle sharing by drug abusers is likely to increase. This population may include a higher proportion of persons with sporadic work histories than the current population with AIDS and ARC. (For further discussion of demographic changes in the AIDS population, please see Item 4260 of the *Analysis,* and *The 1987–88 Budget: Perspectives and Issues.*)

Immigration Bill May Cause Caseload Growth. Although implementation of the Immigration Reform and Control Act of 1986 (IRCA, PL 99-603) may increase SSI/SSP caseloads, the budget does not consider its effect on caseloads for 1987–88. This act permits certain illegal immigrants to gain legal status after completing an application process through the Immigration and Naturalization Service (INS). The act is likely to result in an increase in California's SSI/SSP caseload because, according to the 1980 Census, about 50 percent of all illegal immigrants reside in this state. It is difficult to estimate the number of new recipients that may result from IRCA because the federal government has not yet determined how it will implement various provisions of the act. (For further discussion of PL 99-603, please see *The 1987–88 Budget: Perspectives and Issues.*)

Broader Information Base Can Improve Estimate. Based on our review, we believe the department should take the following steps to improve its estimate of the SSI/SSP caseload:

- ***Establish a System to Track the Growth in the Number of SSI/SSP Recipients With AIDS and ARC.*** Until the department collects such data it will not be able to project the potential impact of this population on the SSI/SSP caseload.
- ***Investigate Data to Identify Trends Among Disabled SSI/SSP Recipients.*** Currently, the department collects characteristics data on disabled SSI/SSP applicants. The department should use this data to identify trends in the SSI/SSP disabled caseload, thereby improving its projection of caseload growth.
- ***Identify the Potential Impact of IRCA on the SSI/SSP Caseload in 1987–88.*** The federal government is likely to determine how it will implement certain provisions of the act before the department

prepares the May revision of estimates. The department should use this information to prepare its caseload estimates for 1987–88.

- ***Adjust Growth Projections Based On Recent Experience.*** As discussed previously, actual caseload growth and the average basic grant amount are running above the department's projections. Thus, the department's estimate understates the costs attributable to these factors.

We believe that these steps will improve the department's estimate of the caseload for 1987–88, and will provide valuable information on what factors are driving the growth in this program. Therefore, we recommend that prior to budget hearings, the department advise the fiscal committees on its plan to incorporate the above factors in its May revision estimates of expenditures. We further recommend that the Legislature adopt supplemental report language that requires the department to implement a system to identify applicants with AIDS and ARC, and compile statistical information using that system.

The following language is consistent with this recommendation:

"The Department of Social Services shall implement a system by September 1, 1987 to identify and track those applicants for aid under Title II and Title XVI who have a diagnosis of Acquired Immune Deficiency Syndrome (AIDS) or AIDS-related conditions (ARC). In addition, the department shall compile statistical information on these individuals, including (1) the number of applicants that are found eligible and ineligible for aid, (2) the category of eligibility (Title II, Title XVI, or concurrent), and (3) the date of (a) application and (b) final determination of eligibility status."

Continuing Saga of Continuing Disability Reviews

We recommend that prior to budget hearings, the department advise the fiscal committees of its plan to revise its estimate of savings due to the resumption of continuing disability reviews (CDRs).

In 1980, Congress enacted amendments to the Social Security Act (PL 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. As a result, on April 1, 1984 the Secretary of Health and Human Services (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 (PL 98-460). Based on this legislation, HHS prepared new CDR regulations which were effective December 6, 1985. As a result, disability reviews resumed in California in January 1986.

The Disability Evaluation Division (DED) within the department is responsible for performing the disability reviews for the Social Security Administration (SSA), and determining whether beneficiaries should be continued or terminated from aid. The DED advises that SSA has sent CDR cases at a much slower rate than anticipated. This is due in part to federal fiscal constraints which have reduced the funding levels for both SSA and DED positions that process CDRs.

The budget assumes that resumption of the CDRs will result in savings to the General Fund because these reviews will identify some SSI/SSP

STATE SUPPLEMENTARY PROGRAM FOR THE AGED, BLIND, AND DISABLED —Continued

recipients as ineligible for assistance. The department estimates that the General Fund savings will total $987,000 in 1986–87 and $3.2 million in 1987–88, despite the slow-down in the number of cases sent to the state.

We have reviewed the department's savings estimate, and have identified a number of factors which could cause the savings from CDRs to be either higher or lower than what the budget assumes. We believe that the department can improve its estimate if it takes into account the following factors:

- ***The Total Number of Cases Which Will be Reviewed in the Current and Budget Years Will Probably Be Lower Than the Number Estimated in the Budget, Thereby Reducing Savings.*** This is primarily because the SSA has not been releasing cases at the rate that is projected by the department. The department expects that 14,000 cases will be reviewed in both the current and the budget year. The most recent estimates from the SSA, however, indicate that it will send approximately 7,000 cases in 1986–87, and possibly 10,000 cases in 1987–88. If DED processes the number of cases identified by SSA, then the General Fund savings will be $800,000 lower than the department projects for 1987–88.
- ***The Percentage of Cases Terminated from Aid May Be Higher Than the Department Projects, Thereby Increasing Savings.*** The department estimates that on average 10 percent of the cases reviewed will be terminated from aid. However, the actual termination rate has been 12.3 percent for the 7,000 cases which DED processed prior to October 1, 1986. In addition, the SSA has informed DED that it intends to send a high proportion of "medical improvement expected" (MIE) cases for review in 1987–88. These are the cases which are most likely to result in a relatively high termination rate. If the termination rate is actually 12 percent, rather than 10 percent, the General Fund savings for the budget year will be $643,000 higher than estimated by the department.
- ***The Appeals Rate May be Lower Than the Department Expects, Thereby Increasing Savings.*** Recent experience with CDRs has resulted in an appeals rate of about 20 percent by the SSI/SSP beneficiaries who were terminated by DED. The department, however, assumes that 80 percent of those individuals who are found ineligible for aid will appeal this decision. The department further assumes that 60 percent of those appeals will be denied, resulting in terminations from aid. To the extent that there are fewer appeals than the department estimates, savings will be greater for both the current year and 1987–88.

It is difficult to accurately estimate the amount of savings the state will realize as a result of the new CDR regulations because the state has had little experience with these regulations. Currently, DED has information about the actual termination and appeals rates it has experienced during the past year of processing CDRs, and the number of CDR cases that it expects to process in 1987–88. The department should use this information to prepare its May revision of estimated savings as a result of CDRs.

Therefore, we recommend that prior to budget hearings, the department advise the fiscal committees of its plan to revise its estimate of savings due to the resumption of CDRs.

Department of Social Services
SPECIAL ADULT PROGRAMS

Item 5180-121 from the General Fund and the Federal Trust Fund — Budget p. HW 153

Requested 1987–88	$3,108,000
Estimated 1986–87	2,516,000
Actual 1985–86	2,565,000
Requested increase $592,000 (+23.5 percent)	
Total recommended reduction	None

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-121-001—Special Adult Programs	General	$3,108,000
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.

OVERVIEW OF THE BUDGET REQUEST

The budget proposes a General Fund appropriation of $3,108,000 for the Special Adult programs in 1987–88. This is $592,000, or 23 percent, more than estimated General Fund expenditures for this program in the current year. This increase results primarily from projected expenditure growth in the Special Circumstances program.

The budget also proposes $75,000 in federal funds to provide cash assistance to repatriated Americans. This is the same amount as is estimated for expenditure in the current year.

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes General Fund expenditures in 1987–88 that are 92 percent higher than the amount initially appropriated for Special Adult programs in 1985–86. During 1985–86, flooding in many parts of the state resulted in increased expenditures for emergency needs under the Special Circumstances program. Final expenditures were almost 60 percent higher than the amount that had been appropriated for 1985–86.

Despite the fact that extensive flooding has not reoccurred, the depart-

SPECIAL ADULT PROGRAMS—Continued

ment is projecting significantly increased expenditures for both the current and budget year. The growth rate was estimated based on the increase in expenditures between 1984–85 and 1985–86, adjusted for expenditures during the flood months. The Department of Social Services anticipates that expenditures for the Special Circumstances program will continue to increase at the same rate. Our analysis indicates that the proposed increase is appropriate.

Department of Social Services
REFUGEE CASH ASSISTANCE PROGRAMS

Item 5180-131 from the Federal Trust Fund — Budget p. HW 159

Requested 1987–88	$43,113,000 [a]
Estimated 1986–87	47,429,000
Actual 1985–86	52,110,000
Requested decrease $4,316,000 (−9.1 percent)	
Total recommended reduction	None

[a] Includes $381,000 proposed in Item 5180-181-890 as a 3.6 percent cost-of-living increase effective January 1, 1988.

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-131-890—Refugee programs—local assistance	Federal	$42,732,000
5180-181-890—Refugee programs—local assistance, COLA	Federal	381,000
Total		$43,113,000

GENERAL PROGRAM STATEMENT

This item appropriates federal funds that pay for the costs of cash grants and medical assistance provided to refugees and Cuban/Haitian entrants who are eligible for assistance and who have been in this country for less than 31 months. Refugees who have been in this country for more than 31 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

We recommend approval.

The budget proposes expenditures of $43,113,000 in federal funds for cash and medical assistance provided through the Refugee Cash Assistance program to refugees and entrants in 1987–88. This represents a reduction of $4.3 million, or 9.1 percent, compared with estimated current-year expenditures for these programs.

The $4.3 million decrease consists of (1) a $4,697,000 reduction due to a 12 percent reduction in projected caseloads and (2) a $381,000 increase proposed in Item 5180-181-890 as a 3.6 percent cost-of-living adjustment that would take effect on January 1, 1988.

We discuss the impact of delaying the statutory cost-of-living adjustment in our discussion of Item 5180-181-001. Legislative action to change the amount or effective date of COLAs on AFDC grants would also affect increases provided to individuals receiving Refugee Cash Assistance.

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 1987–88	$156,863,000
Estimated 1986–87	140,635,000
Actual 1985–86	125,256,000
Requested increase $16,228,000 (+11.5 percent)	
Total recommended reduction	2,382,000
Recommendation pending	2,500,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-141-001—County administration	General	$156,863,000
5180-141-890—County administration	Federal	(402,644,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Income and Eligibility Verification System (IEVS). Reduce Item 5180-141-001 by $1.8 million and Item 5180-141-890 by $3.5 million.*** Recommend reduction of $5.3 million to reflect a more cost-effective targeting of county case reviews. Further recommend adoption of supplemental report language requiring the Department of Social Services (DSS) to collect data needed to maximize savings and minimize costs under IEVS. 754
2. County Cost Control. Withhold recommendation on $2.5 million from the General Fund pending receipt of a final implementation plan for establishing county productivity targets. 756
3. Allocating County Overhead Costs. Recommend the Legislature adopt supplemental report language requiring DSS to report on the costs and savings that may result from changing the way county overhead costs are apportioned to various county-administered welfare programs. 756
4. ***Greater Avenues for Independence (GAIN) Administrative Savings. Reduce Item 5180-141-001 by $582,000 and Item 5180-141-890 by $1.2 million.*** Recommend reduction of $1.8 million in order to account for administrative savings that will result from Aid to Families with Dependent Children (AFDC) caseload reductions due to services provided under the GAIN program. 758

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

GENERAL PROGRAM STATEMENT

This item contains the General Fund appropriation for the state's share of costs incurred by 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 supports the cost 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 $156.9 million from the General Fund as the state's share of the costs that counties will incur in administering welfare programs during 1987–88. This is an increase of $16.2 million, or 11.5 percent, over estimated current-year General Fund expenditures for this purpose. The $156.9 million includes $5.4 million to fund increased General Fund costs resulting from the estimated 3.6 percent cost-of-living adjustment (COLA) granted by the counties to their employees during *1986–87*. In accordance with the policy established by the Legislature in recent budget acts, counties will pay for any COLAs granted to county employees in the budget year using county and federal funds. The state will fund its share of these costs starting in 1988–89.

The budget proposes total expenditures of $757.9 million for county administration of welfare programs during 1987–88, as shown in Table 1. This is an increase of $46.9 million, or 6.6 percent, over estimated current-year expenditures.

Proposed General Fund Changes

Table 2 displays the adjustments to General Fund expenditures for county administration proposed for 1987–88. The net increase of $16.2 million primarily reflects the following factors: (1) $5.4 million needed to fund the estimated 3.6 percent retroactive COLA, (2) $4.4 million in additional funds due to higher-than-anticipated welfare caseloads (basic costs), (3) $2.8 million in additional funding for automation projects (SAWS), and (4) $4.2 million in support of a federally mandated income and asset verification system.

Table 2

County Administration of Welfare Programs
Proposed 1987–88 General Fund Changes
(dollars in thousands)

	Cost	*Total*
1986–87 expenditures (revised)		$140,635
A. Adjustments to Ongoing Costs or Savings		
1. AFDC Administration		
a. Basic Caseload Costs	$3,106	
b. Court Cases/Legislation	488	
c. Fraud Prevention Detection	−223	
d. Income and Eligibility Verification System	1,591	
e. Statewide Automated Welfare System (SAWS)	1,473	
f. Other	−399	
Subtotal		$6,036

Table 1
County Welfare Department Administration
Budget Summary
1985–86 through 1987–88
(dollars in thousands)

	Actual 1985–86				*Estimated 1986–87*				*Proposed 1987–88*			
Recipient Category	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*	*State*	*Federal*	*County*	*Total*
1. AFDC Administration	$93,764	$149,947	$111,845	$355,556	$107,915	$206,258	$115,304	$429,477	$117,997	$214,953	$117,339	$450,289
2. Nonassistance Food Stamps	23,943	91,133	27,583	142,659	28,483	63,619	28,572	120,674	34,678	76,967	31,622	143,267
3. Child Support Enforcement	3,619	87,820	41,568	133,007	—	100,529	44,600	145,129	—	101,777	46,940	148,717
4. Special Adult Programs	1,561	—	60	1,621	1,910	—	69	1,979	2,090	—	—	2,090
5. Refugee Cash Assistance	—	8,828	16	8,844	0	4,832	63	4,895	0	4,285	66	4,351
6. Staff Development	1,862	3,493	2,035	7,390	1,991	4,483	2,307	8,781	2,063	4,644	2,390	9,097
7. Adoption Assistance	116	22	—	138	27	14	—	41	35	18	—	53
Subtotals	$124,865	$341,243	$183,107	$649,215	$140,326	$379,735	$190,915	$710,976	$156,863	$402,644	$198,357	$757,864
8. Local Mandates	291	—	−291	—	309	—	−309	—	—	—	—	—
9. Employment												
a. GAIN	—	—	—	—	—	—	—	—	—	—	—	—
b. WIN-Demo	100	900	—	1,000	—	—	—	—	—	—	—	—
c. Other	—	—	—	—	—	—	—	—	—	—	—	—
Totals	$125,256	$342,143	$182,816	$650,215	$140,635	$379,735	$190,606	$710,976	$156,863	$402,644	$198,357	$757,864

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

2. Nonassistance Food Stamps Administration		
a. Basic Caseload Costs	$1,198	
b. Fraud Prevention/Detection	33	
c. SAWS	1,266	
d. Income and Eligibility Verification System	2,659	
e. Voluntary Quit Sanction	−168	
Subtotal		$4,988
3. Other Programs		
a. Basic Caseload Costs	$115	
Subtotal		$115
B. New Costs		
1. Retroactive COLA (3.6%)	$5,398	
Subtotal		$5,398
C. Elimination of Local Mandates	−309	
Subtotal		−309
1987–88 expenditures (proposed)		$156,863
Change from 1986–87:		
Amount		$16,228
Percent		11.5%

ANALYSIS AND RECOMMENDATIONS

Income and Eligibility Verification System

We recommend a reduction of $5.3 million ($1.8 million General Fund and $3.5 million federal funds) in order to reflect a more cost-effective targeting of county case review under the Income and Eligibility Verification System. We further recommend that the Legislature adopt supplemental report language directing the Department of Social Services to test a number of different levels of follow-up in order to determine the most effective targeting of county case reviews. (Reduce Item 5180-141-001 by $1.8 million and Item 5180-141-890 by $3.5 million.)

The 1987–88 budget proposes $22 million ($5.2 million General Fund, $5.2 million county funds, and $11.6 million federal funds) for support of the Income and Eligibility Verification System (IEVS). Of this amount, $7.7 million is budgeted for activities under the AFDC program and $14.3 million under the Food Stamp program. This system, which is required by federal law, is designed to electronically review the names of AFDC, Food Stamp, and Medicaid recipients and applicants in order to verify that these individuals accurately report income, assets, and other government benefits—such as Unemployment Insurance—to county welfare departments. The department expects the system to be fully implemented by September 1988.

IEVS Overlaps Existing Systems. California currently operates a variety of computerized fraud detection and eligibility verification systems. Specifically, DSS checks income, assets, and government benefits received by AFDC recipients. Once IEVS is fully operational, the following changes will result:

- Applicants, as well as recipients, of AFDC would be reviewed for unreported sources of income and assets. Currently, only recipients receive these reviews.
- Individuals who receive only food stamp benefits would be subject to these reviews. Currently, these individuals are not subject to such reviews.

- Counties would be required to follow-up on *all* information received from the automated fraud systems. Currently, counties have the option of investigating cases where computer reviews indicate that families have sources of income.

We discuss implementation of IEVS in our analysis of Medi-Cal administration expenditures (please see Item 4260). In that analysis, we reach the following conclusions:

- ***Targeting Needed.*** The budget requests funds to review 100 percent of the cases where income and assets are found—no matter whether $1 or $100,000 of income or assets are identified by the computer review. We think that by targeting follow-up to those cases with the highest potential return, the state will realize large administrative savings without a large reduction in the level of grant savings assumed in the budget.
- ***Automation of Case Reviews May Increase Savings.*** The budget proposal assumes manual review of cases. We believe that automating a portion of the follow-up activities would achieve major savings to the state.

Clearly, the state must comply with the federal IEVS requirement. We believe that a reasonable response to this mandate is to maximize the savings and minimize the cost of IEVS. In order to achieve this goal, the state should follow-up on less than 100 percent of the cases. The department, however, does not have the necessary data to most effectively target follow-up activities. Until that data are available, we believe that the existing level of follow-up would provide the most cost-effective targeting guidelines for IEVS.

Therefore, in order to implement IEVS in a cost-effective manner, we recommend that the Legislature:

1. Reduce proposed IEVS funding by $5.3 million ($1.8 million General Fund, $3.5 million federal funds) in order to reduce the level of follow-up from 100 percent to the level of case review currently established for existing fraud activities. This level of follow-up is based on the department's past assessment that cases warrant review only when identified resources exceed a set dollar amount. Our recommendation would require counties to follow-up on all cases where reviews indicate follow-up is warranted. Since counties do not currently follow-up on all targeted cases, our recommendation would substantially increase the existing level of county case reviews.

2. Require DSS to gather data necessary to target cases for each of the types of income, assets, and benefits. With this data, the department will be able to determine the level of case review that yields the highest level of fraud detection while minimizing administrative costs.

3. Require DSS to report to the Legislature on the extent to which county case reviews can be automated.

The following supplemental report language is consistent with this recommendation:

"The Department of Social Services shall test a variety of follow-up thresholds under the Income and Eligibility Verification System (IEVS) program in order to determine the amount of follow-up that is needed to ensure that the program maximizes savings at the lowest possible costs. The department shall report by December 1, 1987 to the Legislature concerning the extent to which local follow-up activity can be automated.

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

This report shall include an assessment of the costs and savings of automating the various components of county IEVS workload."

Cost Control Study Could Affect Costs in 1987-88

We withhold recommendation on $2.5 million from the General Fund proposed for county administration of AFDC pending receipt of a final implementation plan for establishing productivity targets from the Departments of Social Services and Health Services.

The 1986 Budget Act requires the Departments of Social Services and Health Services to conduct a study of the current cost control plan that is used for funding county administration of the AFDC, Food Stamp, and Medi-Cal programs. The County Welfare Directors Association (CWDA) also is participating in the study. The current cost control plan establishes productivity levels for each county's eligibility workers. Using these targets, the department calculates allowable county administrative costs.

The base year used to set productivity targets for AFDC administration is 1980-81. This means that, for the purpose of funding county operations, eligibility worker targets were last updated during 1980-81. While DSS adjusts targets to compensate for changes in workload associated with policy changes, any increases or decreases in worker productivity due to innovations in local administration, such as automation, are not reflected in productivity targets.

The outcome of the required study of caseload targets could significantly affect the level of funding needed to support AFDC and Food Stamp program administration in the budget year. According to DSS, for instance, updating the base year for AFDC and food stamp productivity targets to 1985-86 would result in General Fund savings of $7.5 million, or 4.8 percent, from the level proposed for 1987-88. The department further advises that, should the Legislature approve these higher targets, DSS would suggest a three-year phase-in period, in order to allow counties time to adjust. This phase-in schedule would reduce budget-year savings to $2.5 million.

The 1986 Budget Act states the Legislature's intent to act on one of three cost-control alternatives: (1) if the state departments agree with the CWDA on a method of determining targets, then the agreed-upon plan should be implemented; (2) should the parties not agree on a methodology, any alternative method proposed by CWDA would be considered by the Legislature; and (3) should no new proposal be satisfactory, the act states the Legislature's intent to update the base year used to set productivity targets.

Until the joint cost control report is submitted, the Legislature cannot act. Since an update of the base year would result in substantial General Fund savings, we withhold recommendation on $2.5 million from the General Fund pending receipt of the final cost control study.

County Welfare Department Overhead Costs

We recommend that the Legislature adopt supplemental report language requiring the department to report by December 1, 1987 on the impact of changing the method used to allocate county welfare department overhead costs.

County administrative allocations are determined in two parts. First, support for direct costs—salaries and benefits of workers who directly provide services—are calculated based on county-specific productivity targets (see above discussion). The remaining administrative staff (overhead) costs are then allocated to each program operated by county welfare departments based on the program's share of direct service costs. This cost allocation plan is designed to ensure that each program pays for its appropriate share of the costs of operating the welfare departments.

It is important to accurately distribute overhead costs because state and county funding shares for administration differ by program. The Medi-Cal and GAIN programs, for example, require no county funds; thus, administrative costs are shared equally by the state and federal governments. The administrative costs of the Food Stamp and AFDC programs are shared between the federal government (50 percent) and state and county governments (25 percent each). Thus, if administrative costs attributable to the GAIN program are charged to the AFDC program, counties would pay more than their fair share of overhead costs.

New Method of Allocating Overhead Contemplated. According to DSS, the complications of introducing the GAIN program into the allocation method—and the potential for unintended cost shifts—prompted the department to look for alternatives to the current overhead cost system. Instead of *allocating* overhead costs based on service costs, beginning in 1988–89 counties would be required to *track* a large proportion of actual overhead costs resulting from the operation of each program (referred to as "direct charge").

Changing the overhead allocation methodology to a direct charge system may result in cost shifts, however. This would occur if the current system does not accurately charge programs for the costs generated by each program. While it is likely that counties will experience relatively small cost shifts, these small shifts could add up to a significant amount of General Fund costs or savings to the state.

The department advises that it cannot make any projection of the cost impact of direct charging until after the completion of a pilot study which will begin in April 1987. This pilot will measure the extent to which cost shifts occur due to direct charging.

Since direct charging may result in significant General Fund costs or savings, we believe the Legislature needs to know what the department plans to do regarding changing the overhead allocation methodology as well as the potential fiscal consequences of any change in the way overhead costs will be allocated. For these reasons, we recommend that the Legislature adopt supplemental report language requiring DSS to report by December 1, 1987 on (1) its plan to revise the method used to allocate county welfare department overhead costs, (2) the anticipated impact of this change on each county, (3) the department's plan to temporarily or permanently reduce the impact on individual counties, and (4) the cost or savings to the state due to shifts in the amount of overhead attributed to the operation of AFDC, Food Stamp, GAIN, Medi-Cal, and other social services programs.

The following language is consistent with this recommendation:

"The Department of Social Services shall report by December 1, 1987 to the fiscal committees of the Legislature and the Joint Legislative Budget Committee on its plan to revise the way county welfare department overhead costs are allocated beginning in 1988–89. This report shall fully describe the department's proposal and shall include the following information: (1) the total cost or savings to the state due to shifts in the amount of overhead attributed to the operation of the Aid

COUNTY ADMINISTRATION OF WELFARE PROGRAMS—Continued

to Families with Dependent Children, Food Stamp, Greater Avenues for Independence, Medi-Cal, and other social services programs administered by county welfare departments; (2) the costs or savings that each county would experience due to cost shifts; and (3) the department's plan to temporarily or permanently reduce the impact of these shifts on individual counties."

The GAIN Program Will Result in Administrative Savings

We recommend a reduction of $1.8 million ($582,000 from the General Fund and $1.2 million from federal funds) in order to reflect the administrative savings of caseload reductions resulting from education and training services provided under the GAIN program. (Reduce Item 5180-141-001 by $582,000 and Item 5180-141-890 by $1.2 million).

The Greater Avenues for Independence (GAIN) program provides education and training services to AFDC recipients in order to help them find employment. The 1987–88 budget reflects savings in AFDC grants resulting from GAIN participants finding jobs, thereby reducing or eliminating their need for state assistance. The 1987–88 budget proposes $130 million in grant savings due to GAIN. (Please see Item 5180-101 for a more complete discussion of this estimate.)

The budget, however, does not propose corresponding savings in AFDC administrative costs due to the GAIN program. The department advises that not all increases in employment will result in administrative savings. This is because some individuals will not earn enough to be terminated from aid. For these families, AFDC grants will be reduced, but not eliminated. Thus, no administrative savings would result from families that receive a reduction in their AFDC grant due to income from employment.

There would be administrative savings to county welfare departments however, for families who are terminated from aid. This is because the counties would no longer have to review these cases monthly. In order to accurately reflect this reduction, we relied upon administrative cost data from the Manpower Demonstration Research Corporation study of the San Diego Employment Preparation Program. Using this data and DSS projections of GAIN caseloads, we estimate that administrative savings due to GAIN will total $1.8 million ($582,000 General Fund, $1.2 million federal funds).

Therefore, in order to reflect the administrative savings that realistically can be expected to result from caseload reductions due to education and training services provided under the GAIN program, we recommend a reduction of $582,000 from the General Fund and $1.2 million in federal funds.

Department of Social Services
SOCIAL SERVICES PROGRAMS

Item 5180-151 from the General Fund and Federal Trust Fund — Budget p. HW 155

Requested 1987–88	$520,318,000 [a]
Estimated 1986–87	430,584,000
Actual 1985–86	306,636,000
Requested increase $89,734,000 (+20.8 percent)	
Total recommended reduction	$5,000,000

[a] This amount includes $256,000 proposed in Item 5180-181-001(b) for cost-of-living increases.

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-151-001—Social Services Programs, local assistance	General	$520,062,000
5180-151-890—Social Services Programs, local assistance	Federal	(492,462,000)
5180-181-001(b)—Social Services Programs, local assistance	General	256,000
Total		$520,318,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. Child Welfare Services (CWS)—Case Definitions. Recommend that the Legislature adopt supplemental report language requiring the department to develop uniform case definitions for the CWS program. 765
2. CWS—Workload Guidelines. Recommend that the Legislature adopt supplemental report language requiring the department to review its current workload guidelines. 766
3. CWS—Corrective Action. Recommend that the Legislature adopt supplemental report language requiring the department to develop corrective action plans in order to bring the administration of the CWS program into compliance with state and federal regulations. 767
4. CWS—Caseload Estimates. Recommend that prior to budget hearings, the department advise the fiscal committees on its progress in adjusting its estimate of caseloads to account for specific factors. 769
5. County Services Block Grant—Funding. Recommend that the Legislature adopt supplemental report language requiring the department to determine the appropriate funding and staffing levels for the programs in the County Services Block Grant. 770
6. Office of Child Abuse Prevention—Primary Prevention Programs. Recommend that the Legislature adopt supplemental report language requiring the department to report on the performance of the Primary Prevention Programs and their impact on the CWS system. 773

SOCIAL SERVICES PROGRAMS—Continued

7. Office of Child Abuse Prevention—Child Abuse Prevention and Intervention Programs. Recommend that the Legislature adopt supplemental report language requiring the department to modify its current evaluation system. 776
8. ***In-Home Supportive Services (IHSS)—Federal Funds. Reduce Item 5180-151-001 by $400,000 and increase Item 5180-151-890 by $400,000.*** Recommend a reduction in General Fund support to reflect an increase in available federal Title XX funds. Further recommend that the Legislature adopt Budget Bill language requiring the department to use specified federal funds that revert to it for support of the IHSS program. 782
9. IHSS—Court Case Costs. Recommend that the department advise the fiscal committees on the basis for its estimate of the cost of retroactive payments for a court case. 783
10. ***IHSS—Preadmission Screening (PAS). Reduce Item 5180-151-001 by $3.2 million.*** Recommend a reduction in General Fund support to reflect a lower number of referrals from the PAS program to IHSS. 784
11. IHSS—Contract Costs. Recommend that the department advise the fiscal committees on the basis for its projection that contract costs will not increase in 1987–88. Further recommend that the Legislature adopt supplemental report language requiring the department to submit a report on the reasons for contract cost increases, and its plan to control these costs. 784
12. IHSS—Workers' Compensation Costs. Recommend that the department advise the fiscal committees on the basis for its estimate that workers' compensation costs will increase by 82 percent in 1987–88. 786
13. IHSS—Mid-year Allocation Formula. Recommend that the department advise the fiscal committees on its plan for the mid-year allocation of IHSS funds in the current year and in 1987–88. 786
14. Greater Avenues for Independence (GAIN)—Redirection of Available Resources. Recommend that prior to budget hearings, the department report to the fiscal committees on its revised estimate of the amount of existing resources that may be redirected and used to provide education and training services to participants in the GAIN program. 788
15. GAIN—Administrative Links to Existing Programs. Recommend that prior to budget hearings, the department advise the fiscal committees of the actions that are needed to ensure that existing resources will be available to GAIN participants. 790
16. GAIN—Maximize Federal Funding. Increase Item 5180-151-890 by $2.8 million. Recommend increasing federal funding in order to reflect the full amount of funds that are available to the state for the operation of employment programs for Aid to Families with Dependent Children (AFDC) recipients. 791
17. GAIN—Availability of Additional Federal Funds. Rec- 791

ommend that the department submit along with the May revision an assessment of the GAIN activities that are eligible for support with specified federal funds.

18. Work Incentive Demonstration (WIN-Demo)—Funding Needs. Reduce Item 5180-151-890 by $781,000 and increase reimbursements by $1.4 million. Recommend reducing $781,000 in federal funds and redirecting a like amount in General Fund support from the WIN-Demo program to the GAIN program in order to accurately reflect the funding needs of the Employment Development Department under the WIN-Demo program. Further recommend increasing DSS reimbursements for the GAIN program by $1.4 million in order to recognize the availability of federal Job Service funds. 792
19. ***GAIN—Child Care Licensing Funds. Reduce Item 5180-151-001 by $1.4 million.*** Recommend that $1.4 million from the General Fund for the support of child care licensing activities be transferred to other items where this funding properly belongs. 792
20. GAIN—Remedial Education Expenses. Recommend that prior to budget hearings, DSS report to the fiscal committees regarding its proposed policy for allowing county remedial education costs to exceed the amount provided by average daily attendance reimbursement. 793

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 $520.3 million from the General Fund to support social services programs in 1987–88. This is an increase of $89.7 million, or 21 percent, above estimated current-year expenditures.

The budget proposes $1.1 billion in expenditures from all funds to support social services. This amount consists of $1 billion in appropriated funds (state and federal funds), $85.7 million in county expenditures, and $5.3 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.

SOCIAL SERVICES PROGRAMS—Continued

Table 1
Department of Social Services
Social Services Programs
Expenditures From All Funds
1985–86 through 1987–88 [a]
(dollars in thousands)

Program	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88* [b]	*Change from 1986–87 Amount*	*Change from 1986–87 Percent*
A. Other County Social Services	$289,212	$355,964	$395,940	$39,976	11.2%
1. Child Welfare Services	216,770	280,580	318,389	37,809	13.5
2. County Services Block Grant	72,351	75,384	77,551	2,167	2.9
B. Specialized Adult Services	397,520	434,184	479,674	45,490	10.5
1. In-Home Supportive Services	391,922	428,488	473,978	45,490	10.6
2. Maternity Home Care	2,184	2,254	2,254	—	—
3. Access Assistance for Deaf	3,414	3,442	3,442	—	—
C. Employment Services	17,454	121,514	154,453	32,939	27.1
1. GAIN	3,727	45,100	109,123	64,023	142.0
2. WIN-Demo	12,118	30,135	13,219	−16,916	−56.1
3. JTPA	1,609	3,453	—	−3,453	−100.0
4. Other	—	42,826	32,111	−10,715	−25.0
D. Adoptions	15,685	20,950	21,032	82	0.4
E. Refugee Assistance	34,316	43,979	30,332	−13,647	−31.0
1. Social Services	15,680	28,070	15,495	−12,575	−44.8
2. Targeted Assistance	−2	14,694	14,533	−161	−1.1
3. RDP	18,638	1,215	304	−911	−75.0
F. Child Abuse Prevention	17,601	24,321	23,131	−1,190	−4.9
Totals	$771,697	$1,000,912	$1,104,562	$103,650	10.3%
Funding Sources					
General Fund [c]	*$306,636*	*$430,584*	*$520,995*	*$90,411*	*21.0%*
Federal Funds	*396,802*	*481,257*	*492,462*	*11,205*	*2.3*
County Funds	*69,174*	*86,733*	*85,767*	*−966*	*−1.1*
Children's Trust Fund	*−915*	*2,338*	*5,338*	*3,000*	*128.0*

[a] Includes actual 1985–86 and anticipated 1986–87 and 1987–88 county expenditures.
[b] Includes funds for 1987–88 COLAs ($256,000 from the General Fund and $28,000 in county funds). Also included in these amounts is the Child Welfare Services COLA for 1986–87.
[c] Includes General Fund expenditures of $520.3 million requested in the Budget Bill and $677,000 from other appropriations.

Significant Budget Changes

Table 2 shows that the proposed level of expenditures from all funds for social services in 1987–88 is $1.1 billion, which is an increase of $103 million or 10 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 $31.1 million increase due to anticipated growth in caseloads under the Child Welfare Services (CWS) program.
- A $10.1 million increase to adjust for an unallocated budget reduction in the current year in the CWS program.
- A $29.5 million increase in the IHSS program due to increased caseloads.
- A $16.9 million decrease in the Work Incentive (WIN) program due to the change over from WIN to the Greater Avenues for Independence (GAIN) program in 29 counties.

- A $64.0 million increase in employment programs due to an increase from 27 to 56 in the number of counties operating a GAIN program.
- A $13.6 million decrease in social services programs for refugees due to the carry over of funds from 1985–86 into the current year.

Table 2

Department of Social Services
Proposed 1987–88 Budget Changes
Social Services Programs
All Funds
(dollars in thousands)

1986–87 expenditures (revised)		$1,000,912
A. Proposed changes:		
1. Other County Social Services		
a. CWS increased caseload	$31,145	
b. CWS prior-year COLA costs	1,139	
c. Reduction in costs for severely emotionally disturbed children	−961	
d. CWS Appeals	1,442	
e. Restoration of current year reduction	10,088	
f. One-time restoration of budget reduction	−5,044	
g. IHSS administration increased caseload	2,180	
h. Other IHSS administration costs	63	
i. APS demonstration projects net savings	−76	
		39,976
2. In-Home Supportive Services		
a. Increased caseload	29,542	
b. *Miller vs. Woods* court case	8,667	
c. Time-per-task savings	−1,427	
d. Gatekeeper increased caseload	1,791	
e. Restoration of program reductions	2,047	
f. Workers' compensation increased costs	3,548	
g. Other IHSS increased costs	1,038	
		45,206
3. Employment Services		
a. WIN program phase-out	−16,916	
b. JTPA child care	−3,453	
c. Reductions in other employment programs	−10,715	
d. GAIN program expansion	64,023	
		32,939
4. Adoptions		
a. Enhanced private agency reimbursement	82	
		82
5. Refugee Programs		
a. Reduced carryover	−13,647	
		−13,647
6. Child Abuse Prevention		
a. Federal grant programs	−1,190	
		−1,190
B. Proposed COLAs		
1. IHSS Statutory maximum	284	
		284
1987–88 expenditures (proposed)		$1,104,562
Change from 1986–87:		
Amount		$103,650
Percent		10.3%

The proposed increase of $103.6 million from all funds consists of (1) a General Fund increase of $90.4 million, or 22 percent, (2) a federal funds increase of $11.2 million, or 2.3 percent, (3) a decrease in county funds of

SOCIAL SERVICES PROGRAMS—Continued

$966,000, or 1.1 percent, and (4) an increase of $3 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:

- ***County Share Limited.*** Because the county share of costs for several of these programs is limited, increased costs are borne by the General Fund. For example, state law limits the increase in the counties' share of CWS program costs to the percentage cost-of-living increase provided in the program. In addition, the counties do not share in the costs of the GAIN program which are anticipated to increase by 142 percent in 1987–88. As a result, the General Fund will support most of these increased costs for the GAIN program.
- ***Limited Federal Funds.*** The amount of federal funds made available to California is not based on the cost of the programs, but on federal appropriation levels and the state's share of the nation's population (or other demographic measures). Thus, although expenditures for the programs supported by Title XX (IHSS) are budgeted to grow by 10 percent in 1987–88, California's Title XX allocation for federal fiscal year 1988 (FFY 88) is expected to be only 1.8 percent more than the state's allocation for FFY 87.

ANALYSIS AND RECOMMENDATIONS

OTHER COUNTY SOCIAL SERVICES

Proposed Funding for OCSS. The budget proposes total spending of $395.9 million for the Other County Social Services (OCSS) program in 1987–88. This amount consists of $59.2 million in federal funds (Titles IV-A, IV-B, and IV-E), $271.7 million in General Fund support, and $65.0 million in county funds. The total amount proposed for OCSS is $39.9 million, or 11 percent, more than is estimated to be expended in 1986–87.

Of the amount requested for OCSS, $318.4 million is proposed for the Child Welfare Services (CWS) program. This amount includes $11.1 million (all funds) to fund an average statewide 3.6 percent COLA estimated to be provided by county welfare departments to their CWS staff in 1986–87. The balance of the OCSS request—$77.5 million—is proposed for the County Services Block Grant (CSBG). The budget does not propose a COLA for OCSS to compensate for inflation in 1987–88.

County Services Block Grant (CSBG). The CSBG programs include In-Home Supportive Services (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.
- ***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 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 Permanent Placement program*** requires counties to provide case

management and placement services to children in foster care who cannot be safely returned to their families.

The Department Has No Uniform Case Definitions for the Child Welfare Services Program

We recommend that the Legislature adopt supplemental report language requiring the Department of Social Services to develop uniform case definitions for the Child Welfare Services program and to provide these definitions to the Legislature by March 1, 1988.

During the last couple of years the Department of Social Services (DSS) and county welfare departments have attempted to reach agreement on the definition of a case for the four components of the Child Welfare Services (CWS) program: Emergency Response, Family Maintenance, Family Reunification, and Permanent Placement. Case definitions are particularly important in the current year because the 1986 Budget Act requires that the allocation of CWS funds to counties be based 50 percent on caseloads. The Budget Act also expresses Legislative intent that by 1988–89 county allocations for the CWS program will be based 100 percent on caseloads. It is our understanding that the department and the counties have reached agreement on the definition of a case for all components of CWS except Emergency Response (ER).

The department advises that it is difficult to define ER "cases" because there is no agreement as to the point at which a report of child abuse should be considered an ER case. A case could exist at the time a report is made; at the time of intake into the ER program; or, at the time of disposition from the ER program. Currently, the department assumes that an ER case exists only after it has gone to the point of disposition. In other words, counties are given credit for ER cases once the case has been disposed of through closure or transfer to another CWS program. This method has two major shortcomings:

- It does not take into account staff time spent on (1) ER reports that do not contain sufficient information to warrant an investigation and (2) investigations that result in a social worker being unable to find the alleged victim. Thus, counties will not receive reimbursement for these activities.
- It does not identify the amount of time a case may be in ER before it is disposed of. A case may receive service for two days or two weeks before disposition, but it is counted for a month. As a result, counties may be over paid depending on the actual time a case was receiving services.

In view of these shortcomings, the department should take the following steps in order to assure that the counties are being reimbursed appropriately and that the state is paying no more than what each case requires. First, the department should group the ER activities according to the amount of time involved, thereby establishing two or more *types* of ER cases. Second, the department's budget proposal should be based on estimates of the amount of social worker *time* required for each type of case. Third, the department should then *allocate funds* to counties according to these factors. This would assure that the counties are reimbursed according to the work performed and that the department is paying only for actual ER activities.

The department and the counties are apparently near agreement on case definitions for the Family Maintenance, Family Reunification, and

SOCIAL SERVICES PROGRAMS—Continued

Permanent Placement programs. The department should formalize the case definitions for these programs and then base its budget proposal and allocations on these definitions. This would provide some assurances to the Legislature and the counties that only the actual services provided would receive reimbursement.

Therefore, we recommend that the Legislature adopt supplemental report language requiring the department to adopt case definitions and report on the definitions by March 1, 1988. The following language is consistent with this recommendation:

"The Department of Social Services shall adopt case definitions for each of the four Child Welfare Services (CWS) programs and budget and allocate funds according to these case definitions. The department shall develop a case definition for the Emergency Response (ER) program that will:

"• Account for all activities performed on reports of child abuse.

"• Group referrals according to the activities performed for example, referral cases could be comprised of the following activities:

—Report taken, but insufficient for response.

—Attempted response, but no investigation.

—Investigation and closure without further action.

"Service cases could be comprised of the following:

—Reports that result in an intake to ER.

—Intakes that are transferred to other CWS programs.

"• Determine the length of time cases receive services in ER.

"The department shall provide these case definitions to the Legislature by March 1, 1988."

The Department's CWS Workload Guidelines Are Inadequate

We recommend that the Legislature adopt supplemental report language requiring the Department of Social Services to review its current workload guidelines and report on the results of this review by April 1, 1988.

The Department of Social Services (DSS) builds its budget proposal for the CWS program based on workload guidelines for each of the four CWS components. These workload guidelines represent the number of cases that the "average" social worker should be able to carry. The department assumes that social workers can carry the following number of cases per month:

- 15.8 cases for the Emergency Response program.
- 35 cases for the Family Maintenance program.
- 27 cases for the Family Reunification program.
- 54 cases for the Permanent Placement program.

Recently, the accuracy of these workload guidelines has been called into question.

Emergency Response Guidelines Are Questionable. The department maintains that the workload guideline for Emergency Response (ER) is too low. Specifically, the department believes that the guideline of 15.8 cases per month does not adequately account for the varying lengths of time that a case will remain in ER. For example, the workload guideline does not account for the increasing number of ER cases that are investigated and closed without any further action by an ER social worker. Recent data indicates that as of January 1985, 61 percent of all ER cases were closed after investigation without further action. By June 1986, 77 percent of all ER cases were closed after investigation without further action. This results in a decreasing amount of work done on ER cases over time. Because the 15.8 workload guideline has never been revised, it does not account for this decline in the amount of work performed per case.

The Family Maintenance Guideline Is Questionable. The Family Maintenance (FM) guideline of 35 cases per month has been called into question by a recent department review of the CWS system. This review uncovered 3,300 FM cases statewide that were not active and not receiving services, but for which the state had been allocating funds to the counties. This resulted in the state paying for a workload that was lower than the established guideline.

The adequacy of the FM guideline also is called into question by the relatively slow growth in the FM program compared to the caseload growth in the Family Reunification and Permanent Placement programs. In 1987–88, the department estimates that the FM caseload will grow by 2.2 percent while the Family Reunification and Permanent Placement caseloads will grow by about 8.7 percent. This difference in growth rates may indicate that social workers are placing children in foster care in order to manage their caseloads in FM.

Department Needs to Time Study Activities to Determine Appropriate Workload Guidelines. In order to resolve the questions surrounding the workload guidelines in the ER and FM programs, we recommend that DSS time study the activities of these programs. Based on the results of this study, the department should revise its guidelines used in the budget proposal and the allocations to the counties.

The following supplemental report language is consistent with this recommendation:

> "The Department of Social Services shall perform a time study of the Emergency Response and Family Maintenance programs. The study of the Emergency Response program should determine the number of each type of Emergency Response case that can be managed by a social worker. The study of the Family Maintenance program should emphasize the amount of time needed to provide appropriate efforts to avoid out-of-home placement for a child. The study shall be made of an adequate number of cases in a representative sample of counties. The department shall report the results of the study to the Legislature by April 1, 1988."

The Department Needs to Take Corrective Action in Child Welfare Services Program

We recommend that the Legislature adopt supplemental report language requiring the Department of Social Services to develop a corrective action plan by December 1, 1987 in order to bring the administration of the Child Welfare Services program into compliance with state and federal regulations.

In the fall of 1986 the department conducted a review of the Child Welfare Services system in all 58 counties. This review was conducted in anticipation of the federal government's review which is scheduled for 1987. The review evaluated counties' performance in such areas as developing case plans, maintaining proper case files, and reviewing cases within the required time frames. It was not designed to evaluate the quality or effectiveness of services provided by the county welfare departments to abused children and their families.

SOCIAL SERVICES PROGRAMS—Continued

The state reviewed five "critical elements" and 26 "essential elements" of the CWS program. The critical elements measured compliance with federal law requirements such as (1) keeping assessments or reassessments of case plans current and (2) holding permanent placement hearings within 18 months of placement. These elements were weighted more heavily than the essential elements. The essential elements were designed to measure county compliance with state regulations regarding such things as court and administrative reviews and completeness of required documents.

The results of the state's review indicates that county performance was poor: 37 counties, or 63 percent, failed the review. In general, the problems fell into three categories:

- Deficiencies in the most basic requirements of the CWS system, such as the lack of service plans for some clients.
- Inadequate or inaccurate case record keeping.
- Noncompliance with regulations regarding specific time frames for such activities as social worker visits with clients.

Corrective Action Is Needed So As Not to Jeopardize the Availability of Federal Funds. At the time this analysis was prepared, the department had no plans to take corrective action to bring the counties into compliance with state and federal regulations. The department acknowledges that if the counties' poor performance continues during the federal audit, the results would jeopardize up to $19 million in federal Title IV-E funds.

In view of this potentially significant fiscal impact, it is important for the Department of Social Services (DSS) to determine how the problems identified by its review can be resolved. There are several steps that the department should take in order to improve county performance.

First, the department should study those 21 counties that passed the state's compliance review in order to determine the factors, such as resources and management practices, that account for their good performance. The DSS should then determine what successful management or service practices may be replicable in other counties.

Second, where county staff failed to maintain current service plans and the court and administrative reviews were not done within the legal time frames, DSS should move quickly to determine why counties are not in compliance with these basic requirements and develop corrective measures. Where inadequate record keeping is the reason for noncompliance, the department should develop "model" case files and forms for use by counties that identify all the information required by the regulations. These models should be designed so that their proper use will assure counties of compliance with state and federal regulations.

Third, many counties have expressed concern that the department's regulations go beyond the intent of state and federal law. State and federal law allow the courts to determine the necessity and frequency of visits between social workers and clients. The department, however, imposes strict regulations regarding the frequency of social worker visits. For example, regulations require that social workers make visits to families in the FM program every 15 days during the first 90 days that the case is open. It is unlikely that every child in the FM program is going to need this precise level of service. By assuming that all children will require the same level of service, the department's regulations may result in unnecessary cost to the CWS program.

We believe that where the usefulness of the regulations is in question or the regulations are in conflict with court practices, the department should work with the counties to re-evaluate those regulations and adjust them as necessary.

Given the counties' generally poor performance in the state review and the potential federal funds at stake, we recommend that the Legislature adopt supplemental report language directing the department to develop corrective action plans for those counties that failed the state's review. The following language is consistent with this recommendation:

"The Department of Social Services, in consultation with representatives from county welfare departments, shall develop a corrective action plan for the Child Welfare Services (CWS) program that will bring the administration of the program into compliance with state and federal regulations. The department shall report to the Legislature by December, 1987 on the corrective action measures adopted. The development of this plan shall include, but not be limited to, the following:

"• Measures to bring all failing counties' CWS cases up to a minimum standard of compliance with federal regulations.

"• A study of passing counties to determine the successful management and service practices that may be replicable in other counties.

"• Model case files and forms for counties to use that will bring records and files into compliance with federal and state regulations."

Costs for Emergency Response and Family Maintenance Are Potentially Underestimated

We recommend that prior to budget hearings, the department advise the fiscal committees of its progress in adjusting its estimate of costs for the Child Welfare Services Program to reflect the impact of more recent caseload growth and other outreach and educational programs.

Our analysis of the department's caseload estimates of the Emergency Response (ER) and Family Maintenance (FM) programs indicates that the growth in these two programs is potentially underestimated. This is because the department did not adequately consider certain information when building its projections for 1987–88. This potentially could result in an underestimate of the costs of the Child Welfare Services (CWS) program of approximately $10.4 million ($6.7 million General Fund).

The department estimates that the caseloads in the ER program will increase by 9.6 percent in 1987–88. This projection was built using four years of actual caseload data. The first of these four years, however, corresponds to the year *before* the implementation of the current ER program. The second year of data corresponds to the phase-in year of the ER program. By including data from these years, the department understated the subsequent growth in the program. This is because requirements of the current ER program, such as mandated child abuse reporting, have resulted in significantly increased caseloads. After making adjustments to account for these factors, we estimate that the ER caseloads will grow by 15 percent, rather than 9.6 percent, in 1987–88.

The department estimates that the FM caseload will grow by 2.2 percent in 1987–88. This projection was made using data that included the phase-in year of the program. Again, by including these data the department understated the subsequent growth in the FM program. If we adjust for this fact, we estimate that the FM caseload will grow by 5.8 percent, rather than 2.2 percent in 1987–88.

SOCIAL SERVICES PROGRAMS—Continued

In addition, other factors may increase the ER and FM caseloads in 1987–88. For example, the heightened public awareness created by outreach and education programs will tend to keep abuse reporting at a higher level than it would be otherwise.

In estimating the cost of the CWS program, the department should consider the more recent caseload trends in ER and FM programs as well as the impact of programs outside the CWS system. Therefore, we recommend that prior to budget hearings, the department advise the fiscal committees on its progress in adjusting its caseload estimates to reflect these factors.

Staffing and Funding Levels of CSBG Should Be Reviewed

We recommend that the Legislature adopt supplemental report language requiring the Department of Social Services to determine the appropriate funding and staff levels of the programs in the County Services Block Grant and report its findings to the Legislature by January 1, 1988.

The County Services Block Grant (CSBG) includes funds for administration of the In-Home Supportive Services (IHSS) program, Adult Protective Services (APS), Information and Referral, Staff Development and 13 optional programs. The budget proposes $76.8 million for CSBG for 1987–88. This consists of: (1) $49.2 million for IHSS administration—an increase of $2.2 million due to increased caseloads—and (2) $27.6 million for the other services combined. Funding for these other services has been capped at about this amount for the past four years.

The department allocates the CSBG funds to the counties as a block grant. As a result, the counties have the authority to shift funds among the various programs within the block grant. Thus, the counties determine the amount of funding each program receives.

There are minimal state regulations governing the operation of the block grant programs with the exception of IHSS administration. As regards IHSS administration, the state has established specific regulations regarding time frames for determining eligibility and conducting needs assessments and reassessments. In April 1985 the department reviewed a sample of cases to determine the counties' compliance with these regulations. The results of this review showed that: (1) in 20 percent of the cases, the counties failed to determine eligibility within the required 30 day time limit; (2) in 17 percent of the cases, the counties failed to conduct needs assessments within the 30 day time limit; and (3) in 12 percent of the cases, the counties failed to conduct the annual reassessment on time.

There may be several reasons for the counties' failure to comply with these regulations, including the following:

- Counties may emphasize other block grant programs such as APS or staff development at the expense of IHSS administration. For example, the budget assumes that IHSS social workers will carry 127 cases each month. In some counties, however, social worker caseloads approach 300 a month. In these instances, the state is paying for more social workers than the county is using, thereby making funds available for other CSBG programs.
- Counties are not reimbursed for the actual cost of a social worker. The budget assumes that the cost of an IHSS social worker is about $10,000 less than the actual cost of a social worker in other county administered welfare programs, such as Child Welfare Services.

At the time this analysis was prepared, there was not adequate information to determine the extent to which these factors explain the counties' inability to comply with the IHSS administration requirements. It is important for the department to determine adequate funding and staffing levels for programs in the block grant for two reasons. First, to the extent that counties are unable to meet the requirements of the IHSS program, services to recipients will decline.

Second, in the past few years the Legislature has shown increased interest in the establishment of program requirements for the APS program. If the current APS pilot projects result in recommendations for specific service levels, the Legislature should know what resources are available to fund these requirements.

Therefore, we recommend that the Legislature adopt supplemental report language requiring the department to determine the funding and staffing levels that are necessary to fullfil the requirements of the current CSBG programs. The department also should determine the amount of resources that will be available from the CSBG to fund any additional requirements that result from the APS pilot projects. The following language is consistent with this recommendation:

"The Department of Social Services shall submit a report to the Legislature by January 1, 1988 that identifies the funding and staffing levels that are necessary to fulfill the current requirements of the programs in the County Services Block Grant. The department also shall determine the amount of resources that will be available from the County Services Block Grant to fund any additional requirements that may result from the current Adult Protective Services pilot projects. This report shall utilize county-specific information that is available from the department's computerized data base. The report shall include, but not be limited to, the following county-specific information for a representative sample of counties:

"• The extent of county compliance with the regulations for the IHSS administration program.

"• The caseloads carried by IHSS social workers.

"• The extent of services provided by counties in the Adult Protective Services, Information and Referral, and Staff Development programs.

"• The amount of any county overmatch for the County Services Block Grant."

OFFICE OF CHILD ABUSE PREVENTION

The Office of Child Abuse Prevention (OCAP) within the Department of Social Services (DSS) administers a large number of child abuse prevention and intervention programs throughout the state. Most of these programs were established and funded initially by specific legislation. In subsequent years, funding was provided by the various Budget Acts. Table 3 shows the programs administered by OCAP and illustrates several important points about these programs.

- ***OCAP Funds Three Types of Services:*** (1) *direct services* such as counseling, respite care, and parent education provided under AB 1733, (2) *prevention and training programs* for school children, parents, and teachers provided by AB 2443, and (3) *innovative* ("experimental") treatment and prevention services funded through AB 1562 and the State Children's Trust Fund (SCTF).

SOCIAL SERVICES PROGRAMS—Continued

- ***The General Fund Provides the Bulk of Support for These Services.*** Specifically, 71 percent of the funds comes from the General Fund, 28 percent from the SCTF, and 1 percent from federal funds.
- ***Eligibility for Direct Services Includes All Children Who Are Abused or Neglected or At Risk of Abuse or Neglect.*** However, several of the programs are targeted at specific groups such as newborn infants and children who are currently in the Child Welfare Services (CWS) system.

It should be noted that OCAP and county welfare department staff do not provide direct services. Instead, these services are provided by private nonprofit agencies.

Table 3
Child Abuse Prevention Programs
1987–88
(dollars in thousands)

Programs	*Services*	*Eligibility*	*Funding* [a]
AB 1733			
County Programs	Various child abuse and neglect prevention/intervention services	Children abused/neglected or at risk and their families regardless of income	$9,360 General Fund
Innovative Programs	Services to Asian, Hispanic and developmentally disabled children and their families	Asian, Hispanic and developmentally disabled children at risk of abuse or neglect	$1,040 General Fund
Training and Technical Assistance	Workshops and staff training for county programs	na [b]	$312 General Fund
AB 2443			
Northern Training Center	Program and technical assistance to Northern Primary Prevention Programs (PPPs) and to OCAP	na [b]	$600 General Fund
Southern Training Center	Program and Technical Assistance to Southern PPPs	na [b]	$600 General Fund
Primary Prevention Projects	Classroom and workshop training in child abuse and neglect prevention	Children enrolled in public school or preschool and parents and teachers	$9,000 General Fund
AB 1562			
In-Home Services	Crisis counseling, supportive and follow-up services	Selected children who are dependents of the court	$1,200 General Fund
Self-Care Projects	Public education regarding "latchkey" children	na [b]	$225 General Fund
State Children's Trust Fund			
Perinatal Tracking	Parent education and counseling	Children from the last trimester of pregnancy through age six months who are at-risk of abuse/neglect	$340 SCTF
Service Directory	Statewide directory of child abuse/neglect prevention services	na [b]	$88 SCTF
Various Evaluations	Evaluations of AB 1733, AB 1562, AB 2443, and Perinatal Projects	na [b]	$723 SCTF

Informational Videos	Reporting by mandated reporters and clergy; abuse issues in the Asian and Hispanic Communities	na [b]	$400 SCTF
Federal Grants			
National Council on Child Abuse and Neglect	Development of self-evaluation modules for prevention programs	na [b]	$193 Federal Funds
Totals			$24,900
Funding Sources			
General Fund			*$17,600*
State Children's Trust Fund			*$7,100*
Federal funds			*$193*

[a] Includes $1.8 million in expenditures which will occur in subsequent years.
[b] Not Applicable.

There are two sources of support for child abuse prevention programs which are not shown in Table 3. First, most counties have their own Children's Trust Funds. The counties are not required to report the amount of revenue in their funds to the state or the specific uses of these funds. Revenues to these funds are from surcharges on birth certificates issued by local health departments, gifts, bequests, any funds appropriated by the county boards of supervisors, and interest payments.

Second, the Office of Criminal Justice Planning (OCJP) also administers various child abuse prevention and intervention programs at the local level. In 1987–88, OCJP will provide $935,000 to local child abuse treatment and prevention programs through the Victims of Crime Act and the Juvenile Justice and Delinquency Prevention Act. A pilot project for homeless youth also will be funded at $920,000 through OCJP.

Review of the Child Abuse Primary Prevention Training Program

Chapter 1638, Statutes of 1984 (AB 2443), established child abuse primary prevention programs in schools throughout California. The purpose of these programs is to provide training and education to children, parents, and school staff in order to reduce child abuse and neglect.

The budget proposes $10.2 million to support these programs in 1987–88. Of this amount, $9 million will be distributed to 81 providers serving 131 areas throughout the state. Providers receive contracts ranging from $50,000 to about $150,000. Two training centers, one in northern California and one in southern California also will be funded at a combined annual amount of $1.2 million. These centers provide information, training, and technical assistance to the 81 service providers.

Department Should Review Performance of Programs

We recommend that the Legislature adopt supplemental report language that requires the Department of Social Services to submit a report by February 1, 1988 on the performance and administration of the primary prevention program.

We have reviewed the primary prevention projects administered by OCAP and have the following concerns with their operations

Program Goals and Performance Need Review. The OCAP established a goal of serving 1.3 million school children during the first year (December 1985 through December 1986) of operation of the primary prevention programs. The most recent data available shows, however,

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that the programs made child abuse prevention presentations to 356,401 children during the first six months of operation (December 85 through May 86). At the time this analysis was prepared, the data for the last six months of the year were not available. If this trend continues, we estimate that the programs will provide services to 708,000 children during the first year of operation, or 53 percent of its goal.

This apparently modest beginning may be the result of establishing an optimistic goal of serving 1.3 million children in the first year. This goal may have been unrealistic considering the various problems associated with the program's implementation. For example, most of the local programs experienced start-up delays in hiring staff and establishing working relationships with local school districts. In addition, because schools are closed for part of December, the providers had fewer weeks during that month to make their presentations. Furthermore, even if the established goal is appropriate, the curricula used by some of the contractors may not be the most efficient way to provide information to different age groups. For example, a video presentation for older students with one presenter may be a more efficient use of staff time than a live skit that uses three presenters in one session.

Now that the first year of operation is over, OCAP should re-evaluate its projected service goals to take into consideration factors such as school schedules, relationships with school districts, and the economies attained by providers of different sizes and with different curricula.

OCAP Is Working to Determine Curricula Effectiveness. Currently, OCAP does not know which of the program contractors are using the most effective curricula for preventing child abuse and neglect. This is mainly because the program is new. When the program started, OCAP had no experience in reviewing curricula for child abuse prevention presentations, and therefore could not provide direction to contractors regarding the content of their presentations.

The OCAP has tentative plans to have a consortium of contractors evaluate the various curricula in order to determine the appropriateness of their content and style. As a result of this review, OCAP expects to develop a "menu" of curricula from which the providers can choose. This study should provide OCAP with an opportunity to more clearly identify the cost-effectiveness of the contractors' services and the need for targeting services.

OCAP Does Not Know What Impact the Primary Prevention Programs Have on County Welfare Department Caseloads. Currently, OCAP does not know if reports of abuse which originate from the primary prevention programs have had a substantial impact on the workload of county welfare departments. Although, the primary prevention programs record the number of abuse reports made to county welfare departments they do not follow up to determine if the county responded to the report.

To the extent that reports of abuse from the primary prevention programs turn out to be unfounded or unsubstantiated, then these programs are needlessly increasing the workload of the county welfare departments. On the other hand, the primary prevention programs are likely to bring to the attention of county officials actual cases of abuse that otherwise would have gone undetected. In order to determine which of these situations is more prevalent, the primary prevention programs should track the disposition of the reports of abuse they make to counties. Such follow-up should include a determination of the final disposition of the report.

Currently, OCAP does not have information on the capability of the primary prevention programs to track their own reports of abuse. This capability may vary depending on factors such as (1) the size of the service area, (2) the relationships between the programs, law enforcement, and child protective agencies, and (3) the time constraints of the program staff. A survey of the programs could provide this information.

If the programs have the capability of tracking their reports of abuse, the department could establish a system for tracking at least a sample of the reports of abuse generated by these programs. This information would be useful in determining the impact of these programs on CWS caseloads.

Program's Performance and Impact Should Be Studied. In view of the problems we have identified, we recommend that the Legislature adopt supplemental report language requiring OCAP to submit a report by February 1, 1988 that examines the performance of the primary prevention programs and their impact on the Child Welfare Services caseloads of the county welfare departments. The following supplemental report language is consistent with this recommendation:

"The Department of Social Services shall report by February 1, 1988 on the performance of the Child Abuse Primary Prevention Program and its impact on the Child Welfare Services system. This report shall include the following:

"1. Revised performance goals that account for factors such as school schedules, and the relationships of the primary prevention programs with school distiets.

"2. Results of a study of the cost-effectiveness of different curricula and the department's recommendations regarding the most effective curricula from which the providers can choose.

"3. Recommendations of the department regarding the need for targeting primary prevention services to specific groups of children, parents, and teachers.

"4. Results of a survey of providers to determine their capability to follow-up on their own reports of child abuse.

"5. Conclusions of the department regarding the feasibility of implementing a system for the tracking of child abuse reports from the primary prevention programs."

Review of the Child Abuse Prevention and Intervention Projects

Chapter 1398, Statutes of 1982 (AB 1733), appropriated $10 million in order to establish child abuse prevention and intervention projects statewide. Chapter 1398 continues to be funded at an annual rate of $10.4 million. Of this amount, $1 million is set aside to fund 10 "innovative" prevention and intervention projects. The remaining $9.4 million is allocated to counties according to a specified formula. There are 167 county projects statewide.

County boards of supervisors use the funds allocated to them to contract with private nonprofit or public agencies to provide services to children who are abused or neglected or are at high-risk of abuse and neglect. Some of the services typically provided are: (1) counseling, (2) crisis intervention, (3) child development therapy, (4) respite care, (5) 24-hour care, (6) transportation, (7) advocacy services, and (8) referral services. Many of these services are identical to the services provided under the Child Welfare Services (CWS) program.

Information Collection from the Local Projects Should be Improved

We recommend that the Legislature adopt supplemental report language requiring the Office of Child Abuse Prevention to modify its current evaluation system to include client-specific and project-specific information and report by February 1, 1988 on the results of its evaluation of the projects' relative effectiveness.

The 1984 Budget Act required the Office of Child Abuse Prevention (OCAP) to develop and implement a system for evaluating the county projects established as a result of Chapter 1398. The system was to measure overall project performance with regard to client outcomes, community impact, program costs, and the types and extent of services offered. In addition, the evaluation system was to develop information about how well private contractors coordinated with public child welfare services agencies in regards to needs assessment planning and case referral.

The Usefulness of the Current Evaluation System is Limited. In response to the requirements of the 1984 Budget Act, the department developed an evaluation system that identifies: (1) the services provided by contractors, (2) a sample of the population served, (3) personnel costs and resources, and (4) client responses to services received for all projects in aggregate. Because the evaluation simply aggregates the data collected from all projects there is no indication as to which projects are providing the most cost-effective services. This is because the evaluation system is unable to identify: (1) which types of services are provided to which types of clients and (2) which services are most effective for particular client groups.

Evaluation Should Measure Project's Relative Effectiveness. In order to determine which services are most cost-effective, OCAP should develop a method of measuring the "relative effectiveness" of AB 1733 programs. A measure of relative effectiveness would enable OCAP to compare the results of services offered by various projects with those of other projects having similar clients. Measures of effectiveness could include: (1) the extent of reabuse, (2) avoidance of out-of-home placements for a specified amount of time, and (3) length of stay in foster care.

In order to develop a measure of relative effectiveness, several refinements need to be made in the collection of data from the projects. Specifically, client-specific data should be gathered on a sample of recipients. The data should include information about the client which can be used to measure the effectiveness of programs—for example, length of time in foster care. In turn, these data could be compared with project-specific data such as services provided, frequency and length of services, objectives of services, contact with CPS agencies, referral and acceptance requirements, and caseloads of project workers. We believe that this information would give a much clearer picture of the effect of the projects.

OCAP Evaluation System Should Incorporate Data From Other Sources. Currently, OCAP is awaiting the results of a study of several "self-evaluation" modules that twelve projects are completing. These modules are used to identify for the project staff the strong and weak points of the programs that they are operating. The OCAP also has asked the counties that contract for services under AB 1733 to provide the state with a description of how well the programs operate in the different counties given the needs and resources available in each county. If the results of these activities prove to be useful, the information gathered could be incorporated with the data described here to strengthen OCAP's evaluation of the projects.

It is difficult to measure the effectiveness of prevention programs without controlled longitudinal studies that are rather expensive. For these reasons, we believe that a measure of the programs' relative effectiveness is the most appropriate evaluation method for AB 1733 programs. Therefore, we recommend that the legislature adopt supplemental report language requiring OCAP to modify its current evaluation system to include client-specific and project-specific information and report by February 1, 1988 on the results of the evaluation of the projects' relative effectiveness. The following language is consistent with this recommendation:

"The Office of Child Abuse Prevention shall modify its current evaluation system to include client-specific and project-specific information on a sample of clients. Based on this information, the office shall submit a report to the Legislature by February 1, 1988 on the relative effectiveness of the projects. This report shall include a comparison of the following client-specific and project-specific information:

"For clients:

"• Age of child.
"• Relationship of child to abuser.
"• Type and severity of abuse.
"• Instances of reabuse.
"• Dependency status.
"• Length of time in placement.
"• Voluntary or court-ordered participation.
"• Services received from other agencies.

"For projects:

"• Services provided.
"• Frequency and length of services.
"• Objectives of services (for example, to maintain the child at home or to return the child to the family).
"• Relationship to CPS agencies.
"• Referral and acceptance requirements.
"• Caseloads of project workers."

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. While this implies that the program *prevents* institutionalization, eligibility for the program is *not* based on the individual's risk of institutionalization. Instead, an individual is eligible for IHSS if he or she lives in his or her own home—or is capable of safely doing so if IHSS is provided—and meets specific criteria related to eligibility for SSI/SSP.

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 primary services available through the IHSS program are:

- ***Domestic and related services*** such as routine cleaning, meal preparation, and shopping.
- ***Nonmedical personal services*** such as feeding, bathing, and dressing.
- ***Essential transportation.***

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- ***Protective supervision,*** such as observing the recipient's behavior to safeguard him or her against injury.
- ***Paramedical services*** which are performed under the direction of a licensed health care professional and necessary to maintain the recipient's health.

The IHSS program is administered by county welfare departments under broad guidelines that are established by the state. Each county may choose to deliver services in one or a combination of ways: (1) by individual providers (IPs) hired by the recipients, (2) by private agencies under contract with the counties, or (3) by county welfare staff.

IHSS Faces Possible Deficit in the Current Year

The department estimates that expenditures for the IHSS program will exceed the current-year appropriation by $2 million. This increase is primarily due to an 11 percent cost increase for contract agencies. The department indicates that it will not know the actual amount of the deficit until April 1987 when the counties submit an updated estimate of their IHSS costs for 1986–87. Until then, the department indicates that it does not intend to implement program reductions in order to keep the IHSS program within the amounts appropriated by the 1986 Budget Act.

Based on our analysis we conclude that the deficit may be higher or lower than estimated by the department because in several counties, the department assumed that the deficit amount would be something other than the shortfall projected by the county. For example, in one county the department assumed a deficit that was $2 million *lower* than the amount projected by that county, although in another county it assumed a deficit that was almost $1 million *higher* than that county's estimate. To the extent that counties are unable to actually reduce their costs by the amount that the department assumes, the deficit may be higher than $2 million. To the extent, however, that counties are able to limit their costs by more than the department assumes, the deficit may be lower than $2 million.

It should be noted that the deficit would be about $11 million higher, except that the department was able to shift unexpended funds from an IHSS court case to cover other shortfalls in the program. The higher deficit would have existed primarily due to federal and General Fund budget reductions in 1986–87, *not* because of unexpected program growth.

Proposed Budget-Year Expenditures

The budget proposes expenditures of $474 million for the IHSS program in 1986–87. This is an increase of $45.5 million, or 10 percent, above estimated current-year expenditures. The significant changes that account for the increase are as follows:

- A $29.2 million increase to fund an estimated 6.5 percent increase in basic caseload, and a 2.7 percent increase in average hours per case.
- An $8.8 million increase for retroactive payments to recipients as a result of the projected settlement of the *Miller v Woods* court case.
- A $3.5 million increase due to an estimated 82 percent increase in workers' compensation costs.

Table 4 displays IHSS program expenditures, by funding sources, for the past, current, and budget years. The table shows that, while expenditures for the IHSS program from all funds are expected to increase by 10 percent, expenditures from the General Fund and county funds are expected to increase by 25 percent.

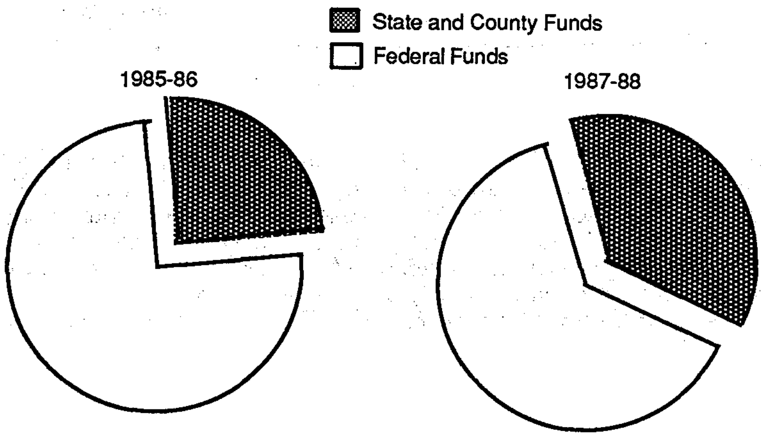
Table 4
Department of Social Services
IHSS Program
Expenditures and Funding Sources
1985–86 through 1987–88
(dollars in thousands)

Funding Sources	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Change From 1986–87*
General Fund	$82,550	$119,558	$149,876 [a]	25.4%
Federal funds	297,121	292,542	303,578	3.8
County funds	12,251	16,338	20,524 [a]	25.4
Totals	$391,922	$428,438	$473,978 [a]	10.6%

[a] Includes $284,000 to provide a 3.6 percent statutory cost-of-living adjustment to raise the maximum payment level for specified recipients, effective January 1, 1988.

The significant increase in General Fund and county expenditures is primarily due to the fact that the budget proposes an increase of only 3.8 percent in federal funds for the IHSS program. As a result, the General Fund and county funds bear a larger share of the increase in total program costs. Chart 1 shows that the General Fund and county share of total program expenditures is expected to increase from 21 percent in 1985–86 to 31 percent in 1987–1988.

Chart 1
In-Home Supportive Services
Percentage of Funds by Funding Source
1985-86 and 1987-88

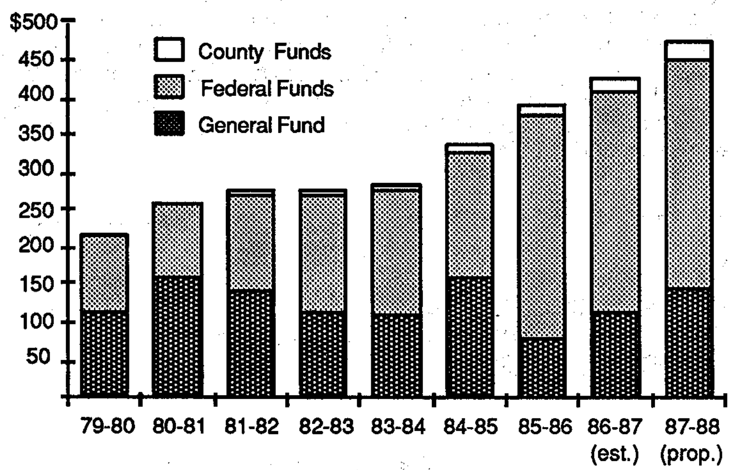


SOCIAL SERVICES PROGRAMS—Continued

Expenditure Growth Driven By Caseload, Service Hours, and Costs

Chart 2 displays expenditures in the IHSS program for a nine-year period from 1979–80 through 1987–88. Prior to 1980–81 expenditures grew at an average annual rate of 22 percent. Expenditures then grew at a relatively slow rate (2.9 percent) between 1981–82 and 1983–84 as a result of the implementation of Senate Bill 633 (Ch 69/81) which made significant changes in the IHSS program. Since 1983–84, expenditures have increased at an average annual rate of 13 percent, although in the past two years the growth rate has decreased slightly.

Chart 2
In-Home Supportive Services Expenditures
1979-80 through 1987-88 (in millions)



Three Major Cost Drivers. Three elements drive the growth in IHSS expenditures—the number of service recipients (caseload); the number of hours of service provided to each recipient (average hours per case); and the cost of the individual providers (IPs), contract agencies and welfare staff that provide the services. Many different factors determine the growth rates of each element, as discussed below.

Caseload Continues Upward Trend. Table 5 displays the monthly caseload by service delivery type, for the past, current, and budget years. The table shows that caseloads are estimated to grow by about 6.5 percent between 1986–87 and 1987–88. This is slightly higher than the growth experienced between 1984–85 and 1985–86, but consistent with the growth in prior years.

Table 5
Department of Social Services
IHSS Program
Average Monthly Caseload
By Provider Type
1985–86 through 1987–88

Service provider types	*Actual 1985–86*	*Est. 1986–87*	*Prop. 1987–88*	*Percent Change From 1986–87*	*Percent of Total 1987–88*
Individual providers	89,246	95,593	101,964	6.7%	80.3%
Contract agencies	20,901	22,274	23,597	5.9	18.6
County welfare staff	1,732	1,400	1,400	—	1.1
Totals	111,879	119,267	126,961	6.5%	100.0%

In the *Analysis of the 1986–87 Budget Bill* (please see page 978), we identified several important factors external to the IHSS program that cause public demand for IHSS to increase. In addition to those factors, the following also will affect caseload growth in 1987–88:

- ***To the Extent That Counties Provide Outreach to Those Who May Be Eligible for Services, the IHSS Caseload is Likely to Increase.*** Pursuant to Ch 119/86 (SB 274) the department required each county to report on its IHSS outreach methods in its 1986–87 county plan. Counties indicate that their outreach efforts range from no outreach activities to frequent participation in workshops and meetings with other organizations that are involved with disabled and elderly persons.
- ***IHSS Caseloads Are Likely to Increase to the Extent That the Potentially Eligible Population Increases.*** Between 1986 and the year 1990, the population over age 65—a major source of IHSS cases—is expected to grow at twice the rate of the total population. (For a further discussion of demographic and other changes that may increase the IHSS caseload, please see our discussion of California's Long-Term Care System in *The 1987–88 Budget: Perspectives and Issues.)*

Increase in Average Hours of Service Per Case Tapers Off. The department estimates that the average hours of service will increase by 2.7 percent in 1987–88 as shown in Table 6. This is a slower rate of growth than experienced in the past when the annual growth rate was 4.5 percent. In the future, the following factors may change the growth rate in average hours:

- ***Program Uniformity May Increase or Decrease Average Hours.*** The department has implemented a statewide computerized data base in order to increase the uniformity of service hours that counties award to clients. It also plans to implement a statewide uniform needs assessment process by October 1987. These two innovations could either increase or decrease the growth in service hours. For example, to the extent that most counties *currently* provide higher average

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hours of service than are appropriate, greater program uniformity is likely to cause the growth in average hours to decrease.

- ***Growth in Severely Impaired Caseload Will Increase Hours.*** The percentage of IHSS recipients who are severely impaired is increasing. This is significant because these recipients generally require more than three times as many service hours as other recipients.

Table 6
Department of Social Services
IHSS Program
Average Monthly Total Hours of Service
By Provider Type
1985–86 through 1987–88

Service provider types	Actual 1985–86	Est. 1986–87	Prop. 1987–88	Percent Change from 1986–87
Individual providers	75.82	77.67	79.67	2.6%
Contract agencies	24.90	24.42	24.67	1.0
County welfare staff	10.91	10.35	9.88	−4.5
Totals [a]	65.32	66.86	68.68	2.7%

[a] Average of the three modes, weighted by caseload.

Cost of Services By Contract Providers Climbs. The costs of the IHSS program are increasing in part due to the rapid increase in the cost of services provided by contractors. For example, contract costs increased 11 percent in 1986–87 compared to a 5 percent increase in costs for individual providers (IPs). In general, contract costs are increasing due to wage and benefit increases for service providers, and increases in other costs such as workers' compensation and administration. (Please see Item 5180-181 for further discussion of contract agency COLAs; and, our recommendation below regarding contract costs).

In the future, costs for IPs also may increase for two reasons. First, the Legislature may act to provide higher wages, supervision or training for IPs. Second, some counties may use IPs as an alternative to escalating contract costs. In the current year, for example, one county may cancel its contract due to cost increases, and several counties are considering the possibility of supervision for IPs.

Additional Federal Funds Available for IHSS

We recommend a reduction of $400,000 in General Fund support for the IHSS program, and a corresponding increase in federal fund support to reflect the availability of additional federal funds. We further recommend that the Legislature adopt Budget Bill language that requires the department to use all specified federal funds that revert to it to support the IHSS program, thereby freeing up General Fund monies. (Reduce Item 5180-151-001 by $400,000 and increase Item 5180-151-890 by $400,000).

The budget proposes federal fund expenditures of $304 million to support the IHSS program in 1987–88. We estimate that at least an additional $400,000 in federal Title XX funds are available to support the costs of the IHSS program in 1987–88. These funds remain from the $6 million in federal Title XX funds which were provided to the State Department of Education (SDE) in Ch 1282/83 for child care services.

The SDE has annually carried over a portion of the $6 million since

1983–84, because (1) it did not contract for the full amount of funds and (2) some agencies did not spend the full amount of contracted funds. The 1987 Budget Bill does not propose using these funds for the child care program in 1987–88. As a result, the unexpended balance—at least $400,000—will revert to DSS on July 1, 1987. To the extent that child care agencies are unable to spend their entire allocation in 1986–87, additional funds, up to a total of $1 million, would revert to DSS.

Because these federal funds can be used in place of General Fund monies to support the IHSS program, we recommend a General Fund reduction of $400,000 and a Federal Fund increase of $400,000. In the event that additional federal funds revert to DSS, we recommend that the Legislature adopt Budget Bill language that requires the department to use such funds in lieu of General Fund monies to support the IHSS program. The following Budget Bill language is consistent with this recommendation:

> "The Department of Social Services shall use all federal Title XX funds that revert to it from the Department of Education's (SDE) "Child Care and Employment Act" program in lieu of General Fund monies budgeted in this item for the In-Home Supportive Services program."

Court Case Costs Are Too High

We recommend that prior to budget hearings, the department advise the fiscal committees on the basis for its projection that retroactive payments in two court cases will be more than twice as high as payments in other social services court cases.

The budget proposes $9 million ($8.1 million General Fund and $0.9 million county funds) for retroactive payments to IHSS providers as a result of the *Miller v Woods* court case and a related policy change. Of the $9 million, $8.7 million is for retroactive payments associated with the *Miller v Woods* case. As a result of this case all spouses and housemates who provided protective supervision, and in some cases medical transportation, to IHSS recipients during specified periods are to receive retroactive payments for providing that service. As regards the *Miller v Woods* case, the department and the plaintiffs' attorney indicate that they are likely to reach an agreement in the next several months on the terms of the settlement.

Our analysis indicates that the cost of the retroactive payments may be substantially lower than the amount proposed in the budget. The department's estimate assumes that 38 percent of the eligible population will receive retroactive payments. It indicates that this estimate is based on experience in other court cases. The department, however, advises that in those cases—for example, Aid To Families With Dependent Children (AFDC) cases—only five to 15 percent of the eligible population actually received retroactive payments.

We do not know why the department assumes that the percentage of eligible recipients who will receive payments in this case will be more than double the percentage in AFDC cases. One possible explanation is that the IHSS caseload is more stable than the AFDC caseload. Therefore, a higher proportion of the population whose providers are eligible for retroactive payments may still receive IHSS, and advise their providers to claim their retroactive payments.

Although it is true in general that the IHSS caseload is more stable than the AFDC caseload, the specific group of IHSS recipients affected by this court case is probably among the least likely to remain on the caseload for

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long periods of time, or to have the ability to claim the retroactive payments. These recipients require protective supervision, which means that they are unable to "supervise" themselves. Many of them have Alzheimer's disease or other seriously disabling conditions that are likely to result in institutionalization.

Therefore, we recommend that prior to budget hearings the department explain to the fiscal committees the basis for its estimate that 38 percent of eligible recipients will claim retroactive payments.

Pre-Admission Screening Results in Few New IHSS Recipients

We recommend a General Fund reduction of $3.2 million in order to reflect a lower number of referrals from the Pre-Admission Screening (PAS) program to IHSS. (Reduce Item 5180-151-001 by $3.2 million.)

Chapter 1637, Statutes of 1984 (AB 2226) required the Department of Health Services (DHS) to implement a preadmission screening (PAS) program in five of its field offices starting in 1984–85. Chapter 213, Statutes of 1986, required DHS to implement the program statewide on July 1, 1986. The purpose of the program is to determine if Medi-Cal recipients who are applicants for nursing home placement 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 PAS program. These costs are based on the assumption that the PAS program increases the number of persons who are referred to IHSS. The department estimates that the PAS program will result in General Fund costs of $3.4 million to the IHSS program in 1987–88.

Our analysis indicates that the department's estimate of the number of cases that will be referred from the PAS program to IHSS is too high. The department assumes that the PAS program will increase the IHSS caseload by 90 cases each month. Based on actual experience, however, DHS advises that in the first six months of statewide implementation the PAS program has diverted a total of only 23 persons to the community, with four referred to IHSS.

Assuming that the PAS program diverts a total of 50 persons to the community in the current year, we estimate that it may double that number to 100 persons in 1987–88. This increase would occur due to increased familiarity with the program by DHS staff, and the organizations, such as hospitals, that make referrals for nursing home placement. Even if all 100 persons who were diverted receive IHSS, this would result in General Fund costs of $171,000 in 1987–88, or $3.2 million less than the amount proposed in the budget.

Therefore, we recommend a General Fund reduction of $3.2 million in order to more accurately reflect the cost of services for recipients that the PAS program will refer to IHSS in 1987–88.

Contract Costs Increase

We recommend that prior to budget hearing the department advise the fiscal committees of the basis for its projection that contract costs will not increase in 1987–88. We further recommend that the Legislature adopt supplemental report language requiring the department to submit a report by September 1, 1987 on the reasons for contract cost increases and its plan to control those costs.

Seventeen counties contract with private agencies to provide IHSS. In the current year, the budget proposes $51 million for these contract costs. The department assumes that the total cost of these contracts will increase by $355,000 in 1987–88 (excluding increases due to the number of hours of service provided by contract agencies). This is an increase of less than one percent, even though average contract costs increased by about 11 percent in 1986–87 (excluding the state-mandated increase for provider wages).

The department has not reviewed the contracts to determine which line items—such as workers' compensation, wages, benefits or administrative costs—have been primarily responsible for the increase in contract costs.

Cost Increases May Result from Lack of Competition. Our analysis indicates that one explanation for growing contract costs may be the lack of competition in the contract process. Currently, eleven of the seventeen contract counties contract with one company. Both the department and the counties advise that many bidders inquire about the IHSS contracts, but few bid. Although the department advises that it receives at least three bids for each county's contract, the counties advise that in general only one or two of the bidders meet the minimal qualifications and can be considered serious bidders.

The following factors may explain the low number of bidders:

- The counties require contractors to have sufficient assets to operate for one month without reimbursement. Small, local agencies often do not have sufficient resources to meet this requirement.
- Incumbent contractors have information about actual contract expenditures that provides them with a basis for predicting future contract costs. This gives them an advantage over other bidders. Although the state audits the contracts, it is sometimes difficult for bidders to gain access to information on actual expenditures by existing contractors. Without that information, it is more difficult for bidders to estimate the potential costs of the contract.

Department Lacks Plan to Control Costs. The department does not have a statewide *plan* to control contract costs, but rather is controlling these costs on a county-by-county basis. For example, in the current year the department has indicated to one county that it will not fund the increase in its IHSS costs resulting from its new contract. Therefore, the county advises that it is likely to cancel its contract. In other counties, however, the department proposes to fund the increased contract costs. At the time this analysis was prepared, the department could not identify any consistent criteria it was applying as the basis for its decisions regarding county contract costs.

Based on the actual increase in contract costs in prior years, our analysis indicates that these costs are likely to increase by more than the amount proposed in the budget for 1987–88. Therefore, we recommend that the department advise the fiscal committees of the basis for its projection that contract costs will increase by only $355,000 in 1987–88. In addition, these costs are likely to continue to increase in future years unless the department develops a plan to limit these increases, rather than addressing the problem on a county-by-county basis. Therefore, we further recommend that the Legislature adopt supplemental report language requiring the department to submit a report by September 1, 1987 on the reasons for increases in contract costs and its plan to control these costs. The following supplemental report language is consistent with this recommendation:

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"The Department of Social Services shall submit a report to the Legislature by September 1, 1987 on the reasons for increases in contract costs and its plan to control those costs."

Workers' Compensation Costs Are Potentially Overstated

We recommend that the department advise the fiscal committees of the basis for its projection that workers' compensation costs will increase by 82 percent in 1987–88.

The budget proposes $7.9 million from the General Fund to pay workers' compensation costs in 1987–88 to individuals who have become disabled while working as IHSS providers. This is 82 percent above the amount currently estimated for 1986–87. The department advises that this projected increase is based on the following factors: (1) the growth rate in workers' compensation costs in prior years (65 percent), (2) a "cushion" for unanticipated costs (10 percent), and (3) caseload growth (7 percent).

We recognize that it is difficult to estimate the costs of workers' compensation claims due to uncertainty as to the number of potential claimants in a given year. Nevertheless, our analysis indicates that it is unlikely that these costs will increase at the rate projected by the department. This is because the annual *growth rate* in these costs has been slowing since 1982–83. The increase was 65 percent in 1985–86, the last full year for which we have actual data. In addition, the growth rate seems to have stabilized at this level: costs increased by about 65 percent between the first six months of 1985–86 and the first six months of 1986–87.

Given the most recent actual experience, we recommend that the department advise the fiscal committees on the basis for its projection that IHSS workers' compensation costs will increase by 82 percent in 1987–88.

Mid-Year Allocation Methodology is Unknown

We recommend that the department advise the fiscal committees of its plan for mid-year allocations of IHSS funds in the current year and in 1987–88.

The department annually notifies each county of its initial allocation of IHSS funds in July. In general, the allocations are lower than what each county will spend because the department usually holds back some funds which it will distribute to the counties through a second allocation later in the fiscal year. Prior to this second allocation of funds, the department solicits updated county estimates of expenditures for the fiscal year. Based on its review of these data, it allocates the remaining funds. To the extent that the budget does not provide sufficient funds and the Legislature provides a deficiency appropriation, the department may also allocate funds for a third time.

Each time the department allocates funds, it uses a different methodology to distribute these monies amongst the counties. In general, it determines the methodology for its initial allocation of funds in consultation with the County Welfare Directors Association (CWDA). The methodology for the second allocation of funds, however, is determined by the department. This allocation is significant because until it occurs a county cannot determine if its IHSS program will be fully funded.

To the extent that a county does not receive sufficient funds during this second allocation for its IHSS program, current law requires the county to submit, and the department to approve a service reduction plan. These service reductions would be much more drastic if implemented later in the fiscal year, rather than earlier. For example, if the department requires a county to reduce services by $100,000 beginning in January, it can spread the reductions over a six month period and implement less severe service reductions. If the reductions do not begin until May, however, a county would reduce services much more drastically because it would have only a two month period to achieve savings of $100,000.

The department advises that it has not yet developed a methodology for the mid-year allocation in the current year. It further advises that it has not established either its allocation or mid-year allocation methodology for 1987–88.

Due to the significance of the department's mid-year allocation methodology for continuity of services in the IHSS program, we recommend that the department advise the Legislature on its plan for its second allocation of funds in 1986–87, and for its mid-year allocation in the budget year.

EMPLOYMENT PROGRAMS FOR AFDC RECIPIENTS—
Greater Avenues for Independence (GAIN)

The DSS provides education and training services to recipients of Aid to Families with Dependent Children (AFDC) in order to help them find jobs and become financially independent. In total, the budget proposes $154.5 million from all sources for support of these programs. Of this amount $109.1 million is requested for the GAIN program in 1987–88. The remaining $45.4 million is requested for other employment programs administered by DSS in 1987–88. This includes $13.2 million for the Work Incentive Demonstration (WIN-Demo) program, and a $31 million transfer of federal funds to the State Department of Education (SDE) to partially support state-subsidized child care costs of AFDC recipients who are in training or looking for employment.

The GAIN program will encompass all other employment programs administered by DSS by January 1989, when all counties are required to implement GAIN. (Currently, DSS estimates that all but two counties will begin program operation before the end of 1987–88.) As the GAIN program begins in a county, the WIN-Demo and the Employment Preparation Program (EPP) will terminate. The budget reflects this trend, proposing a 56 percent reduction in total funding for WIN-Demo and a 94 percent cut in EPP support from current-year funding levels.

Funding Needs Are Uncertain

Because the GAIN program is relatively new and is in the process of being expanded statewide, total program funding needs in 1987–88 are very difficult to calculate. In *The 1987–88 Budget: Perspectives and Issues,* we discuss the major factors that affect the GAIN program's resource needs. In addition, however, there are two other factors that may significantly affect the amount of monies necessary to fully fund the program: actual start-up dates of county operations and the need by GAIN participants for remedial education. We discuss these two issues below.

County Start-Up Dates. The dates when counties initiate GAIN operations will dramatically affect program costs. Specifically, if counties initiate GAIN on the dates they have indicated, then the budget does not contain enough funds for the program. For example, the 1987–88 GAIN budget assumes that all counties will begin operations two months later

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than indicated by the counties. According to DSS, this assumption reflects the start-up experience of the first 10 counties. If most counties actually begin operation when they have indicated—instead of when assumed by the budget—we estimate that GAIN program costs in the budget year will increase by $50 million.

On the other hand, counties may begin GAIN operations even later than the date they have indicated, which would reduce the funding needs of the program. In fact, our discussions with Los Angeles County suggest that the county will not begin GAIN implementation until 1988–89, although the budget assumes that this county will start implementation during the last quarter of 1987–88. Because the county accounts for approximately one-third of all AFDC recipients in the state, we estimate that 1987–88 GAIN program funding needs would decline 5 percent, or $13 million should Los Angeles County not begin operations during the budget year.

Funding for Remedial Education. The GAIN budget for 1987–88 may not contain sufficient funds for the remedial eduation needs of participants. According to the department, 45 percent of all GAIN participants will be assessed as *needing* remedial education (that is, basic education, English-as-a-second-language, or high school instruction). The GAIN budget assumes that 20 percent of program participants will receive remedial education prior to participating in the job search component. The budget, however, does not include funds to provide remedial education to participants who elect to receive it *after* the job search component. The department advises that funding for additional education services—including remedial education after job search—is included as part of the allocation for training costs.

Our analysis indicates, however, that the allocation of funds for training costs could support additional education costs *or* training costs for program participants, but not both. Thus, to the extent that participants require both education *and* training, we estimate that the 1987–88 GAIN budget proposal could underestimate program needs by up to $15 million. The department advises that the experience of counties currently operating the GAIN program will provide an indication of whether additional funds are needed. Any needed adjustments would be made in the May revision.

GAIN Funding Sources Probably Are Overstated

We recommend that prior to budget hearings, the department report to the fiscal committees on its revised estimate of the amount of resources from other existing programs that will be available to GAIN participants during 1987–88.

The 1987–88 GAIN budget assumes that $116.5 million in resources that are appropriated to *other* programs will be available for use by GAIN participants. These programs provide primarily job training and education services and currently serve AFDC recipients as part of their clientele. Table 7 displays most of the programs that the budget assumes will contribute resources to GAIN participants. (Please see our discussion in *The 1987–88 Budget: Perspectives and Issues* for a complete list of existing resources.)

We believe that the budget overstates the availability of existing resources in other programs in two ways. First, the amount of existing resources that DSS estimates will be used by GAIN participants is, in many cases, not justified by past experience. In addition, the dollar contribution that is projected from some programs overstates the *amount of services* that participants actually will receive. Based on these findings, we calculate that existing programs may only contribute a statewide total of $78.4 million in resources, which is $38.1 million, or 33 percent, less than the amount identified in the budget. Estimates of the contributions made by selected programs are discussed below.

Table 7
Resources From Other Programs That Will Be Directed to GAIN Participants 1987–88 (dollars in thousands)

	Available Resources from Other Programs		*Difference*	
Source	*Governor's Budget*	*LAO Estimate*	*Amount*	*Percent*
Job Training Partnership Act—Title II-A	$45,700	$30,800	−$14,900	−33%
Federal Vocational Education	10,000	3,885	−6,115	−61
Community Colleges	16,500	4,200	−12,300	−75
Employment Training Panel	5,000	2,400	−2,600	−52
Work Incentive/Career Opportunity Development	3,000	800	−2,200	−73
Other	36,300	36,300	—	—
Totals	$116,500	$78,385	−$38,115	−33%

Job Training Partnership Act (JTPA)—Title II-A. The budget estimates that $45.7 million in JTPA Title II-A funds will be used to provide services to GAIN participants. This estimate assumes that 45 percent of Title II-A funds that are targeted for adults would be directed to GAIN participants. Our review of JTPA data shows that only 27 percent of JTPA trainees are AFDC recipients. Using these actual data, we calculate that approximately $24 million in JTPA resources would be available for GAIN participants throughout the state. This is a reduction of $21.7 million, or 47 percent, below the amount assumed in the 1987–88 budget.

Federal Vocational Education Funds. The 1987–88 budget estimates that $10 million in federal Vocational Education funds will be available to meet the training needs of GAIN participants. According to the State Department of Education (SDE), however, only $7.8 million, or 13 percent, of the total vocational education funds in the state are specifically identified for the training of adults, including GAIN participants. The SDE further advises that these funds are divided evenly between adult education programs and community colleges. Since DSS separately estimates the amount of existing community college resources that will be available to GAIN participants, we conclude that only $3.9 million in federal vocational education funds are available through local adult education programs. This represents a reduction of $6.1 milion, or 61 percent, from the amount identified by DSS.

California Community Colleges. The GAIN budget assumes that community colleges will devote $16.5 million in existing education and training services to GAIN participants. According to DSS, this estimate is based on a survey that measured the use of community college classes by AFDC recipients. The department assumed that each AFDC recipient receiving instruction accounted for one annual average daily attendance (ADA). Individual attendance in a community college course, however,

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usually accounts for one-eighth to one-quarter of an ADA. As a result, the department's estimate overstates the amount of existing community college resources that will be available to GAIN participants in 1987–88. Based on DSS data, we estimate the figure should total between $2.1 million and $4.2 million.

Employment Training Panel (ETP)/Work Incentive—Career Development (WIN/COD) Programs. The 1987–88 GAIN budget assumes that program participants will use $5 million in ETP resources and $3 million in WIN/COD training. The ETP and WIN/COD programs train specified groups of unemployed individuals, including AFDC recipients. Because these two programs provide more expensive training than the GAIN program, comparing dollars overstates the amount of services that will actually be available to GAIN participants. For example, the GAIN budget assumes that $3 million in WIN/COD funds will train 1,596 GAIN participants. Because of the WIN/COD program's higher cost of training, however, this allocation would support only 353 trainees. Similarly, $5 million in ETP funds would serve 1,300 GAIN participants, not 2,770 as assumed in the GAIN budget. Thus, based on our review, we estimate that only $3.2 million in estimated GAIN costs would be covered by these two programs.

Better Estimates Are Needed. The fiscal implications of our findings are clear: any reduction in the budgeted amount of available existing resources would have to be replaced with General Fund monies in order to meet the needs of the anticipated number of participants. Otherwise, the program will not have sufficient funds to provide identified support services. Because of the importance of existing programs as a source of services for GAIN clients, we believe it is imperative that the Legislature have the best available data on the amount of funds that realistically can be anticipated for the budget year. Therefore, we recommend that prior to budget hearings, the department report to the fiscal committees on its revised estimate of resources that will be available to GAIN participants during 1987–88.

Action Needed to Ensure Availability of Existing Resources

We recommend that prior to budget hearings, the department advise the fiscal committees of the actions it is taking to ensure that existing program resources will be available as proposed in the 1987–88 budget.

Identifying the existing resources that are available to GAIN participants is the first step towards reducing the additional cost of the program to the state. The second step involves taking the necessary administrative actions to ensure that these resources will be available as planned. Our review indicates that DSS needs to follow-up with other state departments to ensure that (1) resources will be directed to GAIN participants and (2) these departments will collect data needed to track expenditures on GAIN clients. This follow-up is needed for the following programs: (1) Community Services Block Grant, (2) WIN/COD and ETP, (3) federal Vocational Education funds, and (4) federal refugee social services dollars.

We contacted the agencies responsible for administering these programs and found that DSS generally had not initiated the actions necessary to ensure that these resources would be available for GAIN program participants. Without this follow-up, it is likely that existing resources will not be maximized as proposed in the 1987–88 budget, and that the GAIN program will not have the funding needed to serve all anticipated participants.

Therefore, in light of the importance of these existing resouorces to the GAIN program, we recommend that prior to budget hearings, the department advise the fiscal committees of the actions it is taking to ensure that existing program resources will be available as proposed in the 1987–88 budget.

Federal Funds Are Not Maximized

We recommend an augmentation of $2.8 million in federal funds in order to reflect the full amount of funds that are available to the state for the operation of employment programs for AFDC recipients. (Increase Item 5180-151-890 by $2.8 million.)

The budget proposes to spend $92.9 million in federal funds to support employment programs for AFDC recipients. Of this amount, $14 million are federal WIN monies and the remaining $78.9 million are AFDC administration funds (referred to as Title IV-A funds).

Our analysis indicates that the budget does not maximize the amount of Title IV-A funds that potentially would be available to the state in 1987–88. Specifically, we have identified the following activities that are proposed to be funded with WIN funds even though these activities are eligible for Title IV-A funding: (1) support of the WIN-Demo program, (2) GAIN registration activities, and (3) departmental support. In addition, EPP costs, which are budgeted primarily from the General Fund, also can be supported with Title IV-A funds. If the state funded these activities with Title IV-A funds, WIN funds could be redirected to support eligible GAIN activities, thereby freeing up $2.6 million in General Fund monies currently budgeted for GAIN.

We are not recommending that the freed-up General Fund monies be deleted from the GAIN budget because we believe there is a shortfall in the amount of existing program funds that are likely to be directed to GAIN participants in the budget year. Instead, we recommend that the fiscal committees (1) redirect the General Fund monies to support the GAIN program and (2) increase Item 5180-151-890 by $2.8 million in order to reflect the amount of federal funds that can be claimed for these employment programs in 1987–88.

Additional IV-A Monies May Be Available

We recommend that DSS submit with the May revision an assessment of the GAIN activities that are eligible for support with federal Title IV-A funds.

The above recommendation attempts to maximize the amount of available federal Title IV-A funds. It is possible that the federal government will authorize the state to support a wider range of activities with these funds than is assumed by the budget. For example, if the Federal government authorized the state to use Title IV-A funds to support training and other activities, a significant amount of federal funds would be available to pay for activities that are currently budgeted with General Fund support.

The department requested the federal government to approve Title IV-A funding for almost all employment and training activities under GAIN. If the department's claims are approved, we estimate that up to $15 million in additional federal funds could be available to support costs that are currently budgeted with General Fund monies or federal WIN funds.

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The department advises that it hopes the federal government will respond to its request before the May revision.

Since this federal decision will have a major impact on the amount of General Fund dollars required by the GAIN program, we recommend DSS submit with the May revision, an assessment of the GAIN activities that are eligible for support with federal Title IV-A funds.

WIN-Demo Program Is Overbudgeted

We recommend reducing $781,000 in federal funds and redirecting $781,000 in General Fund monies from WIN-Demo to the GAIN program in order to accurately reflect the funding needs of the Employment Development Department (EDD). We further recommend increasing reimbursements from EDD by $1.4 million in order to recognize federal Job Service discretionary funds that are available for GAIN during 1987–88.

The budget proposes $11.9 million to support the WIN-Demo program in 1987–88. This includes (1) $8.3 million which will be transferred from DSS to EDD to support job search workshops and (2) $3.6 million in Job Service discretionary funds that EDD proposes to use to support WIN activities that are not eligible for Title IV-A funding.

Our review of EDD documentation indicates that in order to serve WIN-Demo recipients, EDD needs $6.7 million in Title IV-A funds and $2.2 million in Job Service funds, which is $3 million less than proposed (please see our analysis of Item 5100 for more detail on this issue). Since Job Service funds can be used for a broader range of education and training activities than Title IV-A funds, replacing unneeded Job Service funds with Title IV-A funds and transferring the Job Service monies to DSS will allow the state to maximize federal funding.

We conclude that, as a result of such transfers, the WIN-Demo program will need $3 million less than budgeted, and therefore we recommend the following: (1) reduce federal funds by $781,000, (2) transfer $781,000 in General Fund monies from the WIN program to the GAIN program, and (3) increase reimbursements from EDD by $1.4 million in order to recognize Job Service discretionary funds that are available for use by the GAIN program in 1987–88.

Transfer Child Care Licensing Funds

We recommend that $1.4 million in General Fund monies budgeted in this item for child care licensing activities be transferred to other items where it more properly belongs. (Reduce Item 5180-151-001 by $1,353,000.)

The 1987–88 GAIN budget requests $59 million to support child care services for GAIN participants. In addition, the budget includes $1.4 million to license child care facilities—either day care homes or child care centers. These facilities are expected to increase in number as the demand for child care grows. Our review indicates that the request for GAIN-related child care licensing support is reasonable in light of the anticipated demand that GAIN will generate for day care services.

The licensing funds, however, do not belong in the GAIN program appropriation (Item 5180-151-001). To be available for expenditure, these funds need to be transferred to Items 5180-001-001 (departmental support) and 5180-161-001 (community care licensing). The department indicates monies were included in the GAIN budget because the need for additional child care licensing activity is tied to the implementation of GAIN. The department recognizes, however, that the funds would have to be transferred before they could be used to support licensing activities.

We see no advantage to leaving the funds in the GAIN budget: these funds are not needed for the direct support of the GAIN program. Moreover, if the success of the GAIN program depends on the availability of licensed child care facilities, then these monies should be added to the proper DSS budget items so they can be spent as needed. Therefore, we recommend reducing Item 5180-151-001 by $1,353,000 and transferring $402,000 to Item 5180-161-001 and $951,000 to Item 5180-001-001 so that support for GAIN-related licensing activities can be expended as proposed.

Excess-ADA Cost Policy Needs To Be Clarified

We recommend that prior to budget hearings, DSS report to the fiscal committees regarding its proposed policy for allowing county remedial education costs to exceed the amount provided by average daily attendance (ADA) reimbursement levels. We further recommend that DSS advise the committees of the additional cost to the GAIN program during 1987–88 that would result from this policy.

The 1987–88 GAIN budget anticipates using $33.5 million in community college and adult education ADA to meet the educational needs of GAIN participants. (An ADA supports the equivalent of one student attending one three-hour class for a full school year.) These funds would support 50 percent of the total GAIN costs related to remedial education during the budget year. The remaining 50 percent is supported from various sources, include JTPA, refugee social services funds and a direct General Fund appropriation.

The schools believe, however, that ADA reimbursements will not cover the actual costs incurred in delivering educational services to GAIN participants. For example, SDE believes that, in some cases, the excess costs could exceed the ADA reimbursement level by 40 percent. The SDE cites a number of activities or services that it believes GAIN participants will need, but are not normally funded by ADA reimbursements, such as: (1) transportation; (2) assessment, vocational skill development, and job placement activities; (3) additional reporting and tracking of students, and (4) additional staff and facility costs.

Excess-Cost Policy Will Have Major Budgetary Impact. The 1987–88 GAIN budget does not propose any funds to pay for these excess costs. We estimate that 1987–88 remedial education costs would increase by $16.8 million should education costs exceed ADA reimbursement levels by 40 percent. Despite the potential impact on the GAIN budget, DSS advises that no policy is in place to define the excess-ADA costs that may be paid by county welfare departments to adult education schools and community colleges. The DSS advises that it will review and approve each local request for excess costs individually.

Our analysis indicates that there are instances where the cost of providing educational services to GAIN participants will exceed the amount provided by ADA reimbursement. For example, schools may need excess ADA to rent additional facilities to accommodate classes for GAIN clients in particular areas of a county. On the other hand, we believe that DSS should thoroughly review the circumstances under which excess ADA payments are approved, for the following reasons:

- ***Some Activities That SDE Has Identified as "Additional"—Such as***

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Assessment—Would be Provided to All Students, Whether or Not They are GAIN Participants. Thus, we think excess payments would be appropriate only if schools can show that GAIN students will require higher levels of service than the "normal" student. In these cases, DSS will need to identify the level of service that is normally provided, so that it can measure the incremental costs of providing a higher level.

- ***Some "Excess" Activities, Such as Job Placement, are Included in Other Parts of County GAIN Budgets, and Therefore Do Not Warrant Additional State Reimbursement.*** If county welfare departments want adult education schools to engage in job placement activities, the county welfare department should use funds provided for job search to pay for these costs. Otherwise, we believe that providing excess-ADA funds for such activities could result in the state paying the county twice for the same service.
- ***Some Excess Activities are Not Necessarily the Responsibility of the School District, and Therefore Should Not be Reimbursed as Excess ADA Costs.*** The GAIN program assumes that it is the client's responsibility to attend class regularly. If an individual is not sufficiently responsible to attend education classes, it is unlikely that this person could remain employed for very long. Nevertheless, some adult education districts believe that additional staff are needed to telephone GAIN participants and to provide special transportation to ensure that they attend remedial education classes. For those who do not attend required classes, it is the county welfare department's responsibility, not the school's, to ensure that GAIN participants comply with program rules and sanction families as appropriate. While we recognize that schools need regular attendance in order to earn ADA, providing "excess" funding to schools may not be the best solution. Instead, we believe that shifting some of the fiscal liability for "lost" ADA—funds that were not earned due to low attendance by GAIN participants—to county welfare departments might more properly align program and financial responsibility.

We believe DSS should develop a policy that identifies those activities that, if justified, warrant payment above the ADA reimbursement level. The development of such a policy would (1) enable DSS to identify the potential General Fund cost of excess ADA costs, which could be included in the budget-year proposal for the GAIN program and (2) allow the Legislature to review the activities that DSS believes deserve additional payments.

In light of the significant policy and fiscal impacts that may result from the department's policy on excess ADA payments, we recommend that prior to budget hearings, DSS report to the fiscal committees on its proposed policy for allowing county remedial education costs to exceed the amount provided by ADA reimbursement. We further recommend that DSS advise the fiscal committees of the additional cost to the GAIN program during 1987–88 that would result from this policy.

Department of Social Services
COMMUNITY CARE LICENSING

Item 5180-161 from the General Fund and Federal Trust Fund — Budget p. HW 163

Requested 1987–88	$8,383,000
Estimated 1986–87	7,997,000
Actual 1985–86	8,300,000
Requested increase $386,000 (+4.8 percent)	
Total recommended increase	$402,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-161-001—Community Care Licensing	General	$8,383,000
5180-161-890—Community Care Licensing	Federal	(4,708,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis page

1. ***Increased Family Day Care Licensing Workload. Increase Item 5180-161-001 by $402,000.*** Recommend transferring $402,000 from Item 5180-151-001 to this item for increased family day care licensing due to the implementation of the Greater Avenues for Independence (GAIN) program. 795

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 $8,383,000 from the General Fund to reimburse counties for licensing activities in 1987–88. This is an increase of 4.8 percent over the current year. This increase is due to an increase in the number of foster family homes to be licensed in 1987–88.

ANALYSIS AND RECOMMENDATIONS

Funds for Increased Family Day Care Licensing Budgeted in Wrong Item

We recommend that the Community Care Licensing budget be increased by $402,000 to allow for the increased family day care licensing workload resulting from implementation of the GAIN program. (Increase Item 5180-161-001 by $402,000.)

In our analysis of the budget for the Greater Avenues for Independence (GAIN) program (item 5180-151-001), we recommend a reduction of $402,000 from that program and a transfer of the same amount to Item

COMMUNITY CARE LICENSING—Continued

5180-161-001. This is to support the increased need for family day care licensing resulting from implementation of the GAIN program. We make this recommendation because it is more appropriate to budget these funds in this item—which contains funds for licensing activities—than in Item 5180-151-001.

Department of Social Services
COST-OF-LIVING ADJUSTMENTS

Item 5180-181 from the General Fund and Federal Trust Fund — Budget p. HW 160

Requested 1987–88 .... $76,293,000

1987–88 FUNDING BY ITEM AND SOURCE

Item—Description	Fund	Amount
5180-181-001—Cost-of-living adjustments	General	$76,293,000
5180-181-890—Cost-of-living adjustments	Federal	(38,464,000)

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS *Analysis page*

1. Statutory COLAs. Recommend that the Legislature delete Budget Bill language delaying the effective date of statutory COLAs for AFDC and SSI/SSP recipients because the language could require the counties to pay the AFDC COLAs during the first six months of the fiscal year. 800

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 certain county welfare department employees one year in arrears (referred to as "retroactive" COLAs). Thus, the budget proposes to fund in 1987–88, the General Fund costs of specific COLAs granted to county welfare department employees in *1986–87.* (These funds are appropriated in Items 5180-141-001 and 5180-151-001.) For employee COLAs granted by counties in 1987–88, the state will fund its share of the costs beginning in 1988–89.

OVERVIEW OF THE BUDGET REQUEST

Statutory COLAs for Welfare Recipients

State law requires that Supplemental Security Income/State Supplementary Program (SSI/SSP) grants, Aid to Families with Dependent Children (AFDC) grants, and the maximum service award under the In-Home Supportive Services (IHSS) program be adjusted to reflect 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 Commission on State Finance advises that its preliminary estimate of the CNI for 1987–88 is 3.9 percent. The Department of Finance (DOF), however, estimates that the COLA required by existing law is 3.6 percent for 1987–88.

Budget Proposes to Delay COLAs. Under existing law, the annual COLAs are to take effect on January 1, 1988 for SSI/SSP and on July 1, 1987 for AFDC and IHSS. The budget proposes to delay the COLA for SSI/SSP until April 1, 1988 and the COLAs for IHSS and AFDC until January 1, 1988. The administration proposes Budget Bill language to suspend the statutory requirements and permit the COLA delays. (Please see our recommendation below for further discussion of the Budget Bill language.) The budget proposes to provide a 3.6 percent increase, based on the DOF estimate for statutory COLAs, as follows:

- ***SSI/SSP.*** The budget proposes to provide a COLA for SSI/SSP recipients, on April 1, 1988, at a cost of $42 million ($41.8 million General Fund, $134,000 federal funds). Current law requires a statutory COLA on January 1, 1988, at a cost of $83.9 million ($83.4 million General Fund).
- ***AFDC Cash Grants.*** The budget proposes to provide a COLA to AFDC cash grants, on January 1, 1988, at a cost of $76.3 million ($34.2 million General Fund, $38 million federal funds, and $4.1 million county funds). Current law requires a statutory COLA on July 1, 1987, at a cost of $147.9 million ($66.3 million General Fund).
- ***IHSS Statutory Maximum.*** The budget proposes to provide a COLA on January 1, 1988 to the *maximum* amount of service that each IHSS recipient is allowed by statute, at a cost of $284,000 ($256,000 General Fund, $28,000 county funds). Current law requires a statutory COLA on July 1, 1987, at a cost of $569,000 ($511,000 General Fund).

ANALYSIS AND RECOMMENDATIONS

Discretionary COLAs

In the past, the budget has proposed two different kinds of discretionary COLAs. These COLAs are not required by law. Discretionary COLAs for some programs are *retroactive,* and provide the state's share of county wage and benefit increases that counties provided to their employees during the prior year. Discretionary COLAs for other programs, however, provide the state's share of wage and benefit increases that counties provide during the budget year.

Retroactive COLAs. The department administers three programs which receive retroactive COLAs—the county welfare department administration of the AFDC, Food Stamp, and Child Welfare Services (CWS) programs. The budget includes funds for these retroactive COLAs as follows:

- ***County Administration of AFDC and Food Stamp Programs.*** The budget proposes an appropriation of $5.4 million from the General Fund to pay for the cost of COLAs granted by counties in 1986–87 to eligibility determination staff who are assigned to the AFDC and Food Stamp 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

COST-OF-LIVING ADJUSTMENTS—Continued

$7.9 million from the General Fund for the cost of COLAs granted by counties to CWS staff in 1986–87. The budget includes these funds under the appropriation for the baseline costs of CWS (please see Item 5180-151-001).

COLAs Granted for Budget-Year Increases. In addition to the programs that receive discretionary *retroactive* COLAs, the state has in the past granted discretionary COLAs for *budget-year* wage and benefit increases for county welfare department employees and for grant programs. The budget does not contain funds to provide COLAs to these programs.

- ***County Services Block Grant (CSBG) Program.*** Under this program, counties provide adult protective services (APS), IHSS eligibility determination and case management services, and a variety of optional social services. The 1986 Budget Act did not provide a COLA for this program. It would cost $775,000 ($634,000 General Fund and $141,000 county funds) to provide a 1 percent COLA for this program in 1987–88. 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 would grant to the social workers assigned to the program.
- ***Adoptions.*** Under this program, counties provide services to prospective adoptive parents and to children awaiting adoption. The 1986 Budget Act did not provide a COLA for this program. It would cost $209,000 ($147,000 General Fund and $61,000 federal funds) to provide a COLA to the Adoptions program in 1987–88. In general, counties would use any funds provided for a COLA to finance the costs of the COLAs they would grant to adoptions social workers.
- ***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 1986 Budget Act granted a 1 percent COLA for foster family homes ($1.7 million total funds), but it provided no COLA for foster care group homes. It would cost $4 million ($3 million General Fund, $900,000 federal funds, and $100,000 county funds) to provide a 1 percent COLA to all foster care providers in 1987–88.
- ***IHSS.*** Under this program, counties provide supportive services to aged, blind, and disabled individuals to help them live in their own homes. The 1986 Budget Act included $3.9 million ($3.5 million General Fund, $400,000 county funds) to provide a 1 percent COLA to IHSS providers. It would cost $4.3 million ($3.8 million General Fund, $500,000 county funds) to provide a 1 percent COLA to IHSS providers in 1987–88. In general, funds appropriated for a COLA for the IHSS program would be used to increase the wages paid to providers in the budget year.

Budget Does Not Propose a Consistent Policy on Discretionary COLAs. The budget for 1987–88 proposes to provide discretionary COLAs in some instances, but not in others. For example, it proposes discretionary COLAs for some county administrative activities, such as the retroactive COLAs for AFDC, Food Stamp, and CWS. The budget proposes no COLA, however, for county administrative activities for the Adoptions program, IHSS, or APS.

The budget also proposes a discretionary *retroactive* COLA for some IHSS providers, but not for others. For example, agencies that contract with counties to provide IHSS would receive retroactive COLAs for the cost of wage and benefit increases granted to their employees in 1986–87. The budget includes these funds under the proposed appropriation for the baseline costs of IHSS (Item 5180-151-001). The budget proposes no COLA, however, for the majority of IHSS providers—individual providers who are hired directly by recipients. In general, individual providers receive hourly wages which are less than contract providers.

Legislature Has Several Options for Providing Statutory COLAs

As discussed above, the 1987–88 budget proposes to delay the statutory COLAs for AFDC and SSI/SSP benefits. In addition, the budget does not request funds for discretionary COLAs, with certain exceptions.

Although the budget proposes to delay statutory COLAs, this is just one of several options available. Specifically, a number of alternatives are available to the Legislature for these social services COLAs, each of which has its own unique features, as follows:

- ***Provide COLAs as Required by Statute.*** This option would require an augmentation of $73.9 million from the General Fund ($32.1 million for AFDC recipients and $41.8 million for SSI/SSP recipients). This alternative would require no change in existing statutes.
- ***Delay the Statutorily Required COLA.*** This option would result in savings during 1987–88 without reducing the long-term spending power of welfare benefits. Clearly, by delaying the effective date of COLAs, recipients would collect smaller benefits for a period of time. This delay, however, would not cause a permanent reduction in the purchasing power of the grant because the full adjustment for inflation eventually would be made. For each three-month delay, the General Fund savings total $58 million ($16 million from the AFDC COLA and $42 million due to the SSI/SSP COLA). The 1987–88 budget proposes a variation of this option—delaying the AFDC COLA by six months and the SSI/SSP COLA by three months. This option requires statutory changes to implement.
- ***Reduce the Statutorily Required COLA.*** This alternative would provide a COLA to recipients that is smaller than the amount that would result using the CNI. The COLAs for both AFDC and SSI/SSP recipients could be reduced from the statutory rate by 1 percent, for instance. For each 1 percent reduction in the size of these COLAs, the Legislature would reduce General Fund costs by $41.6 million. This option, however, would permanently reduce the spending power of welfare benefits because a reduced COLA amount would not fully maintain the real spending power of the grant as measured by the CNI. Reducing the size of statutory COLAs requires a change in existing state law.

Clearly, the Legislature could combine two or more of these options. For example, the Legislature could provide a full statutory COLA to one group, while reducing the size of the COLA for another group. Or, COLAs could be reduced and delayed for both groups. In addition, should the Legislature choose to provide *discretionary* COLAs to other programs, these options would apply as well.

We make no recommendation concerning action on COLAs for welfare recipients. Rather, this is a major policy issue about how to balance competing interests for scarce resources. One criterion the Legislature could use to allocate COLAs is to consider the extent to which a program or recipients can offset the loss of spending power due to inflation. Using this

COST-OF-LIVING ADJUSTMENTS—Continued

criterion, the Legislature should assign the highest priority to provide COLAs to those programs and recipients who have the least amount of control over their expenditures. For example, some agencies can freeze salaries, increase employee productivity, extend waiting lists for services, or defer new projects. Welfare recipients generally have few alternatives for adjusting their level of expenditures. Recipients cannot easily defer certain purchases or increase their productivity.

In the past, the Legislature's policy concerning COLAs has been to provide inflation adjustments to those with the greatest demonstrated need. Given the limited ability of recipients to offset the loss of spending power due to inflation, we believe that the Legislature should reduce statutory COLAs for welfare recipients only when the Legislature has no other options for controlling expenditures.

Budget Bill Language Could Shift Costs to Counties

We recommend that the Legislature delete Budget Bill language delaying the effective date of statutory COLAs for AFDC and SSI/SSP recipients because it could require the counties to pay for the cost-of-living increases provided to AFDC recipients for the first half of the year.

The Budget Bill contains language to delay the inflation adjustments for AFDC and SSI/SSP benefits. If no statutory change is made to delay the AFDC COLA, however, this language could shift the cost of the AFDC COLA to the counties for the period July 1, 1987 to December 31, 1987 rather than delay implementation of the COLA. According to Legislative Counsel, without a change in state law, the COLA will be effective on July 1, 1987. Counsel further advises that, without the required statutory changes, the effect of Budget Bill language would be to disclaim *state* sharing in the costs of the increase. Without state participation, counties would be required to support the entire nonfederal share of AFDC cost-of-living increases for the first half of 1987–88. This would increase county costs by $32.1 million.

Because the Budget Bill language could unintentionally increase county costs, we recommend deleting the provision in Item 5180-181 that delays AFDC and SSI/SSP benefit COLAs.

DEPARTMENT OF SOCIAL SERVICES—REAPPROPRIATION

Item 5180-490 from the General Fund and the Federal Trust Fund — Budget p. HW 155

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reappropriates $37,000 of the funds appropriated from the General Fund by Ch 1159/85. These funds originally were provided for an Adult Protective Service emergency shelter pilot project, and would be used for the same purpose in 1987–88.

This item also reappropriates the unexpended portion of federal Title XX funds provided for training and retraining of providers of licensed child care as well as state licensing officials, and parents of children in day care. These funds would be used to support the same activities in 1987–88. We recommend that both reappropriations be approved.

DEPARTMENT OF SOCIAL SERVICES—REVERSION

Item 5180-495 to the General Fund — Budget p. HW 163

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

This item reverts the unencumbered balance, approximately $5 million, contained in section (b) of Chapter 16, Statutes of 1986. This bill originally appropriated $10 million to the Department of Social Services for the Individual and Family Grant Program. This program provides emergency loans to victims of disasters such as floods and fires. Because the amount of loans made under the program will not reach the amount appropriated by Chapter 16, we recommend approval of the reversion.